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**RELEVANCE OF STRUCTURALIST AND DEPENDENCY THEORIES IN THE
NEOLIBERAL PERIOD: A LATIN AMERICAN PERSPECTIVE**

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RELEVANCE OF STRUCTURALIST AND DEPENDENCY THEORIES IN THE NEOLIBERAL PERIOD: A LATIN AMERICAN PERSPECTIVE¹

Cristóbal Kay

A new political economy is being constructed in Latin America, as national economies become radically restructured and transformed and new social arrangements are being created. Latin American economies and societies are reacting to these changes and re-linking to the demands of an increasingly competitive and interdependent world. Such changes are taking place within a continent of democratic governance, providing channels to challenge the new neoliberal paradigm. It is argued in this article that structuralism and dependency theory can play a fruitful part in this process of contestation and construction of an alternative development paradigm to the current dominance of the neoliberal paradigm.

1. INTRODUCTION

Since the debt crisis of the early 1980s, there has been a radical series of transformations in the economic, political, social and cultural spheres of Latin America. This can be termed a paradigmatic shift, such has been the scale of the ideological transformation, particularly of governments and their advisers.² The previous paradigm can be said to have lasted from the early 1930s to the mid-1980s and developed in a similar way as a response to an economic

¹ This paper continues the reflections I started in my article 'For a renewal of development studies: Latin American theories and neoliberalism in the era of structural adjustment', *Third World Quarterly*, Vol. 14, No. 4, 1993. This essay derives from my joint work with R. Gwynne and I am most grateful for his contribution. We have together edited the forthcoming book *Latin America Transformed: Globalisation and Modernity*, Arnold: London and Oxford University Press: New York, 1999. I also wish to acknowledge the useful comments from an anonymous internal referee.

² It has to be recognised that in certain ways the neoliberal paradigm returns to some earlier themes and policies already experimented in the past but often in a piecemeal and haphazard way.

crisis. It was characterised by greater state involvement in the management of the economy, an attempt to reduce the linkages with the wider world economy and promote industrialisation. This paradigm spawned structuralist and dependency theories, which tried to interpret events that had already occurred.

The neoliberal policies introduced throughout most of Latin America over the last one or two decades opened a new development era which could be referred to as the globalisation phase succeeding the earlier import-substitution phase. There is nothing inevitable about this phase as it is the outcome of powerful struggles between different social forces in the world system, in general, and within Latin America, in particular. This globalisation reveals the defeat of the socialist project and the triumph of capitalism. While neoliberalism can point to some successes, especially in its ability to become the dominant ideological force among policy makers, it has so far been unable to resolve Latin America's endemic problems of vulnerability to external forces, social exclusion and poverty and has even aggravated some of them.

In view of the crisis of socialism and neoliberalism's failure to address the social question it is imperative to develop an alternative development paradigm which is able to tackle the problems mentioned. While it is beyond the scope of this article to develop this alternative paradigm it is our belief that such an alternative has to build upon Latin America's contribution to development theory. These are principally the structuralism and dependency theory.

Latin America's structuralist theory, sometimes referred to as the centre-periphery paradigm, was mainly developed by staff working in the United Nations Economic Commission for Latin America (UNECLA)³ during the 1950s and 1960s under the inspired leadership of Raúl Prebisch. Meanwhile Latin America's dependency theorists were more widely dispersed throughout a variety of institutions all over the region. But the structuralist strand within dependency theory largely evolved within ECLA and its sister institution ILPES (Instituto Latinoamericano de Planificación Económica y Social), while some of the key neomarxist thinkers were at one time working in the Centre for Socio-Economic Studies

³ In Spanish the acronym is CEPAL (Comisión Económica para América Latina). Later the institution changed its name to Economic Commission for Latin America and the Caribbean (ECLAC).

(CESO) of the University of Chile.⁴

Structuralism and dependency theories grew out of a critique of existing development paradigms which these authors saw as being unable to uncover let alone deal with Latin America's problems of underdevelopment and development. While structuralism argued in favour of an inward-directed development policy largely through import-substituting industrialisation (ISI), dependency theory proposed a new international economic order and, in one of its strands, a transition to socialism as a way out of underdevelopment. It is not the purpose here to review these theories as many writings have already done so⁵ but to briefly explore their contemporary relevance for developing an alternative to the existing neoliberal paradigm.⁶ While structuralist and dependency theories have many shortcomings (which are not explored here, see Kay 1989, among others) their contemporary relevance have been clouded by the inadequate knowledge of them and by the often misplaced criticism, particularly in the Anglo-Saxon world.⁷

Structuralism might provide more relevant ideas for thinking about alternative development strategies for those with a more pragmatic (and possibly realistic) bent while for those with a more radical mind and long term (and possibly utopian) vision might find the ideas of dependency theorists more appealing. Structuralism and the structuralist strand within dependency sought to reform capitalism both internationally and nationally while the

⁴ For details on the distinction between structuralist-reformist and neomarxist-revolutionary dependency thinkers, see Kay (1991).

⁵ For useful analyses of these Latin American theories see, Blomström and Hettne (1984), Kay (1989), Larraín (1989), Lehmann (1990), and Love (1994), among others. For insightful review essays of these books, see Slater (1990) and Frank (1991).

⁶ For an initial attempt of mine to examine the contemporary relevance of the Latin American theories of development, see Kay (1994).

⁷ It is surprising to find that even today many of the books and articles referring to structuralist and dependency theories continue to display a limited and often mistaken knowledge of these theories as they failed to consider key Latin American contributors. Not necessarily among the worst offenders, are Arndt (1987), Harrison (1988), So (1990), Peet (1991), Pakenham (1992), Spybey (1992), Hout (1993), Kiely (1995), Leys (1996), and Preston (1996). While this may have been excusable when few of the original texts were available in English this is no longer the case since 1979 when some of these were translated and especially when comprehensive and thoughtful analyses of these theories became available in English.

neomarxist version of dependency strived to overthrow capitalism as socialism was seen as the only system able to resolve the problems of underdevelopment. Given the collapse of the East European socialist system and China's transition from a planned to a market economy the dependency's socialist alternative is unable to command much support in the less developed world while the structuralist view of reforming the capitalist system is seen as a more feasible option for those searching for an alternative to the existing neoliberal model.

How far a neostructuralist alternative development process within capitalism is able to deal with the problems of underdevelopment remains to be seen but judging from previous structuralist attempts the outlook does not look too hopeful either. It appears that at most Latin American countries can aspire to achieve rates of growth similar to those of the post-war import-substitution period but driven this time mainly by a shift towards non-traditional exports rather than by the domestic market as under ISI. The conclusion seems that while exports and economic growth have been enhanced, this has not been sufficient for significantly reducing income inequalities nor the levels of extreme poverty, although absolute poverty has been reduced from its high level of the lost decade of the 1980s.

2. RELEVANCE OF STRUCTURALISM AND DEPENDENCY

2.1. Increasing Asymmetry in the World Economy

In these days of increasing globalisation, which appears as an unstoppable and relentless process, this should point to the continuing relevance of structuralist and dependency theories as they view the problems of underdevelopment and development within a global context. A central vision of structuralism is its conceptualisation of the international system as being constituted by asymmetric centre-periphery relations. Similarly dependency theory took as its starting point the world system rooting underdevelopment within the unequal relationships within it. The economic divide and income gap between the centre or developed countries and the periphery or underdeveloped countries has widened continually, especially during the debt and adjustment decade of the 1980s, thereby vindicating the predictions of structuralist and dependency theories as opposed to the neoclassical and neoliberal theories which foresee convergence.

The evidence for increasing divergence between Latin American countries, on the one hand, and the centre or developed economies, on the other hand, is indisputable. Already in

1978, the per capita income enjoyed by inhabitants of the centre countries of the world economy was virtually five times that of the highest income economies and twelve times that of the lowest income economies of Latin America; however, by 1995 the ratio had increased to virtually seven and thirty respectively (World Bank, 1997).

2.2. The NICs Controversy

Nevertheless, within the peripheral or dependent countries a few have succeeded in achieving remarkable and consistent high rates of economic growth over the last three or four decades, as well as improvements in equity. This is the case of the Southeast Asian newly industrialising countries or NICs which are South Korea, Taiwan, Hong-Kong and Singapore. In particular the larger countries of South Korea and Taiwan through their spectacular export-oriented-industrialisation success have acquired semi-peripheral status. In this sense the structuralist and 'associated-dependent development' view of Cardoso (1979) is more relevant as compared to Frank's (1967) 'development of underdevelopment' version of dependency, which is at odds with the development achieved by these countries.

It has to be stressed that such a dramatic transformation in East Asia was due to the central role played by a national developmentalist state with a forceful industrial policy (imposed after sweeping land reform) in the pursuit of international competitiveness and growth. This has confirmed the position of structuralists and *dependentistas* who pointed to the importance of the state in promoting development. But the East Asian model has also shown that this state intervention has to be selective and temporary ensuring that firms acquire international competitiveness within a specified period.

Contrary to initial claims by neoliberals, the success of the newly industrialising countries (NICs) of East Asia was state induced rather than market driven as expressed so well by Wade's (1990) phrase of 'governing the market'. The World Bank has tried to accommodate some of the many critics of their initial interpretations of the NICs with their 'East Asian miracle' study (World Bank, 1993) by recognising the influence of the State. But this has in turn spawned further criticisms as the basic argument of the World Bank has not changed as they continue to argue that the less State intervention the better.⁸ In my view the role of the state in peripheral economies is not only crucial but must be constantly

⁸ Among the most perceptive of these new critiques are those done by Wade (1996) and Gore (1996).

changing and aware of the increasing vulnerability of each country in a competitive world economy.

2.3. Financial Vulnerability and Dependence

The Latin American debt crisis of the 1980s, which also affected Africa and many Asian countries, can be seen as an illustration of the contemporary relevance of dependency theory. 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 (Gwynne, 1990). This greatly increased their exposure and vulnerability to changes in world capital markets and substantially reduced their room for policy manoeuvre. In the aftermath of the debt crisis the international financial institutions were by and large able to dictate economic and social policies to the indebted countries, especially the weaker and smaller economies through structural adjustment programmes (SAPs). While Brazil and Mexico were able to negotiate better terms with the World Bank and foreign creditors, Bolivia and other countries were unable to do so. Peru, during the government of Alan García tried to defy the international financial institutions but was severely punished for it and, after a change of government, the country had to accept the harsh reality of the new power of global capital and implement an SAP. SAPs were used as vehicles for introducing neoliberal policies; they had particularly negative consequences for the poor of Latin American economies as unemployment soared and wages and social welfare expenditures were drastically reduced.

Through the remittances of royalties, profits and interest payments the LDCs continue to transfer a significant net economic surplus to the DCs. Such surplus transfers arising from foreign investment and the unequal exchange in foreign trade means a significant reduction in funds which could have been used for domestic investment in the LDCs themselves. However, this does not mean that underdevelopment is due to these factors, although they make the task of achieving development that much harder. It is in the internal class configuration and the role of the State within the peripheral country that the main reason for the continuance of underdevelopment is found. This much has to be learnt by structuralist and dependency writers from the experience of the NICs. Although geopolitical factors played an important role in the success of the NICs it was the developmental role played by the State and its ability to achieve certain autonomy or dominance over class forces which

were the key element.

Nevertheless, the forces of globalisation are so powerful that even the Southeast Asian NICs have had to begin to dismantle the developmental State which stood in such good stead. For example, South-Korea undertook radical financial deregulation encouraged by the IMF, the OECD and by Western governments, firms and banks. Such a deregulation has contributed to the current economic and financial crisis of the East Asian NICs. This crisis has provided an opportunity for the 'Wall Street-Treasury-IMF complex'⁹ to exercise a major influence in the economic policy pursued by these countries. The IMF and the western international banking system have been able to demand a series of structural and institutional reforms from South Korea in return for their assistance. These reforms include a further opening of South Korea's economy to foreign capital, greater liberalisation of the foreign trade regime and of the labour market so as to facilitate the redeployment and dismissal of workers. The combination of massive devaluation and financial liberalisation 'may even precipitate the biggest peacetime transfer of assets from domestic to foreign owners in the past fifty years anywhere in the world, dwarfing the transfers from domestic to US owners that occurred in Latin America in the 1980s or in Mexico after 1994' (Wade and Veneroso, 1998: 20). Thus the big winners are undoubtedly the Western and Japanese corporations and the main losers are the workers, particularly in the South.

In short, the process of globalisation is leading to new forms of financial dependence. The 'Wall Street-Treasury-IMF Complex' is even able to have a major say in economic policy of developing countries, including the NICs, furthering economic liberalisation and the interests of transnational capital.

2.4. Technology and Transnational Corporations

Dependency writers put particular emphasis on technological dependence. Structuralists had pointed to the weakness of the Latin American ISI process in the 1960s and 1970s due to the difficulties it was experiencing in moving from the consumer goods industries to the capital

⁹ The term 'Wall-Street-Treasury-IMF complex' has been coined by Wade and Veneroso (1998). The Treasury refers to the US Treasury of the US government in Washington, D.C. To the IMF could also be added its sister organisation the World Bank which is also located in Washington, D.C. This 'Wall-Street-Washington complex' has replaced the 'military-industrial complex' after the cold war as the main power in the world capitalist system.

goods industries. However, the larger countries had managed to develop a substantial intermediate goods industrial sector such as steel and chemical industries. Despite the increasing presence of transnational corporations (TNCs) in Latin America there has been little technological diffusion, which has confirmed dependency theory's critique of TNCs. Government policy has failed to develop an indigenous technological capacity in Latin America and could have acted more decisively to ensure that TNCs made a contribution to this process. Nevertheless Brazil and to some extent Mexico have acquired some competitive technological capacity largely as a consequence of a purposeful industrial policy (Gereffi, 1994).

But with the new electronics and communications technological revolution the more advanced economies have gained a further competitive advantage over the less developed countries (LDCs). This has further increased the technological dependence of most LDCs (Castells and Laserna, 1994).

2.5. Globalisation: Constraints and Opportunities

Neither structuralism nor dependency theory foresaw the rapid growth of world trade in the post-war period. This has acquired a new dimension in the present phase of globalisation with its time and space compression and the more recent impetus to liberalisation of the world economy with the reduction of barriers to the mobility of goods, services and capital across frontiers thereby creating new opportunities for international trade and foreign investment.

These globalisation forces have certainly reduced even further the room for manoeuvre for national development policies as compared to the ISI period, thereby confirming one of the key tenets of dependency theory. International market forces rule even with greater strength than in the past and national states have to take even greater consideration of these global market forces than before as otherwise they can be faced with large withdrawals of foreign capital (as in the case of Chile and Mexico during the 1982/83 and 1994/95 financial crises, respectively), the wrath of the international financial institutions and difficulties with international firms and investors.

Meanwhile, the reinforcing processes of globalisation and liberalisation have opened up new export opportunities for Latin American economies and have attracted increasing amounts of foreign investment to the region. In some Latin American countries the export sector has been able to give a new dynamism to the national economy. This dynamic capacity

of the world trade system has been underestimated by structuralists and seen as having negative consequences by some dependency writers. While some of these misgivings are justified it has detracted from focusing more firmly on the key issue of the domestic policies pursued by the State and the class and other social forces which shape those policies as well as the internal market forces in the periphery.

2.6. Unequal Exchange

Recent studies have confirmed the continuing deterioration of the periphery's terms of trade in relation to that of the centre countries,¹⁰ a fact first highlighted by structuralism and incorporated into dependency's unequal exchange theory. This means that LDCs have to export an increasing amount of commodities to the developed countries (DCs) so as to be able to import the same amount of commodities from the DCs. However, this does not necessarily mean that foreign exchange earnings have declined - often the case has been the contrary due to the continued rise in the volume of commodity exports from the periphery. But this unequal exchange does mean that part of the periphery's economic surplus is transferred to the centre countries.

The lesson continues to be that LDCs should shift their export structure to higher value added commodities and services rather than continuing to export basic primary commodities which can lead to resource depletion and negative environmental consequences. It should not be forgotten that structuralist theorists were among the first to argue that Latin American governments should encourage industrial exports which they saw as the next phase of the region's industrialisation process (Kay, 1989: 40). However, governments (apart from Brazil) failed to act or did so too timidly.

2.7. Globalisation and the Shift to a Tripolar World

Capitalism is the dominant socioeconomic system in the global economy, and capitalism has always been an international system. However, at the close of the twentieth century, 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 become termed 'globalisation'. This process encompasses economic transformations in production,

¹⁰ See, for example, Singer (1991), Diakosavvas and Scandizzo (1991), Cuddington (1992) and Ocampo (1993).

consumption, technology and ideas. It is also intimately linked with transformations in political systems as well as socio-cultural and environmental change.

It could be argued that nation-states in Latin America must increasingly pursue national goals and objectives within globally-defined parameters and structures. For developing countries in particular, the impact of being more fully inserted into the global economy increasingly reduces the room for policy manoeuvre. In part this is because the governments of developing countries are more dependent on the policy approval of the global institutions that 'supervise' the world economy (such as the IMF, WTO and the World Bank) and on the investment decisions of multinational companies that can be strongly swayed by the verdicts of international institutions.

The fall of the Berlin Wall and the crisis of the Soviet world in the late 1980s has reasserted the dominance of the world capitalist system and emphasised the importance of economic success in establishing nodes of power in the world. The demise of the bipolar world, which had been based around Cold War political ideologies, shifted the emphasis to the variations of political economy within the capitalist world system. Some have argued that the world is now tripolar (Preston, 1996), centred on: (1) North America, with the USA, in particular, re-emphasising its global hegemonic power in both political and economic matters; (2) Japan and the NICs of East Asia¹¹; and (3) the European Union, a regional bloc in the process of both enlargement and deepening.

What is the position of Latin America in this globalising tripolar world? The key political and economic relationship is that with the United States, the dominant player in the global economic and political system of the latter half of the twentieth century. There are then important political and ideological issues at stake. However, it would seem that Latin American countries see themselves, after the demise of both the Second World and the military dictatorships of Latin America, as more influenced by US policy. Countries as distant as Mexico and Argentina have become much closer politically to the US. Meanwhile, in economic terms, Latin America is shifting to the economic reforms of the Washington consensus and seems to be more closely following the US model of capitalism - rather than

¹¹ These countries had formerly been closely linked politically to the US in the bipolar world. However, this region has emerged as a global economic pole, deriving its power from its success in manufacturing in general and knowledge-intensive industries, in particular (as in Japan).

other models of capitalism - such as the state-driven models of East Asia or even the welfare-state models of continental Europe. Meanwhile, US corporations are becoming an even more important economic force in Latin America, particularly in terms of market access and investment opportunities.

2.8. Differentiation of the Periphery

It is thus increasingly popular to claim that the traditional division between the centre and periphery of the world economy is no more (Klak, 1998) and to justify this claim through reference to the process of globalisation. According to Kearney (1995: 548), globalisation implies a decay in the distinction between centre and periphery. The East Asian model of rapid economic growth through increased trade, manufacturing production and technological capability has been significant in this respect. In Latin America, the rise of substantial manufacturing sectors and technological capability in Brazil and, to a lesser extent, Mexico and Argentina, has also served to obscure the centre-periphery model, at least in terms of its original formulation based around the location of manufacturing capacity (Prebisch, 1962). What is true is that the global periphery is becoming increasingly differentiated. Those spaces in the periphery (whether at the scale of the nation-state, region or city) that are both becoming more fully inserted into the global economy and able to achieve a sustained improvement in international competitiveness seem to be operating like new growth centres within the periphery, attracting both capital and labour.

2.9. New Industrial Centres in the Periphery

But to what extent are these new centres within the periphery linked to the growth in manufacturing activity? The conceptualisation of a global economy integrated by commodity chains is among the ways in which dependency theory has evolved (Gereffi and Korzeniewicz, 1994). The analysis of commodity chains in relation to Latin America as a whole demonstrates that, firstly, the export profile of virtually all of the smaller countries of Latin America is dominated by primary products, much as it was in the 1950s and, secondly, the export profile of the larger more-industrialised countries of Latin America is characterised by labour-intensive consumer products or components. Certainly the case of Mexico and particularly the type of industrialisation experienced in its northern cities has been well documented in this respect.

However, it should be pointed out that economic relationships between North America and Latin America are asymmetrical. Exports from Latin American countries to USA (outside those of Mexico and Brazil) are mainly in the form of primary products, with manufactured products dominating in imports from the US. Exports to the US are also much lower than US exports to Latin America.

3. GLOBALISATION AND THE NEOLIBERAL PARADIGM SHIFT

3.1. From Comparative Advantage to Competitive Advantage

Neoliberalism can thus be seen as opening a new chapter in Latin America's evolution, particularly in terms of forming new relations with the world economy. It can be termed a paradigmatic change and related historically to Latin America's insertion into the global economy of the nineteenth century. While Latin America's economies at that time could rely on the comparative advantages of its natural resources, the important issue today is how competitive advantages can be generated and created - both at the level of the nation state and the firm.¹² This requires new conceptualisations. Structuralism underestimated the key importance of competitiveness of the world market in transforming economies and societies. Structuralism thought that Latin American economies could shield themselves from global forces and that they could continue to rely on comparative advantages in minerals and basic primary products whilst promoting inward-oriented industrialisation.

In contrast, the 'pure' form of the neoliberal model believes in completely opening up national economies to global markets without state mediation. It therefore seems willing to sacrifice uncompetitive sectors (most notably in industry) to foreign competition. The corollary for this has been a return to relying on natural resource advantages and what has come to be known as nontraditional exports. Some key leaders in Latin America at present

¹² There has been a lively debate on the extent to which the concept of 'competitive advantage' can be used for nations and there is some agreement today that it refers mainly to firms and industries not to nations. According to Krugman (1994: 44) 'competitiveness is a meaningless word when applied to national economies'. However, government policy can make a crucial difference to the competitiveness of firms and industries as is illustrated by the divergent experience of Latin America during the ISI period and the Southeast Asian NICs. Also as argued by Porter (1990: 19) 'differences in national economic structures, values, cultures, institutions, and histories' contribute to their competitive success.

(such as Cardoso in Brazil) see the need for the state to bring about the necessary institutional changes for the Latin American economies to build up competitive advantages. The need to be part of the world market is now fully accepted but it is also identified that there is a crucial role for the state in (for example) developing human resources. This can be seen as an interpretation of the East Asian model of economic success based on industrial competitiveness and its application to Latin America (Gereffi and Wyman, 1990; Gwynne, 1990).

Such social reconstruction can be very painful, affecting many layers of society - the industrial working classes (as industrial plants are closed or modernised), the state-employed middle classes (as governments privatise and reduce employment in the public services) and uncompetitive (often inward-oriented) sectors of the capitalist class. In the main, this process has been driven by highly-centralised national governments and has often operated in the form of a state-driven social restructuring. This has occurred in authoritarian governments, most notably that of the Pinochet dictatorship in Chile (1973-90). However, democratically-elected governments have also initiated these market-orientated reforms and have even managed to be re-elected on such a platform (Menem in Argentina and Fujimori in Peru). It could be argued that such governments have required strong presidential systems in order to succeed.

This model of state-driven social restructuring has responded to the exigencies of the global market and the pulling down of the economic barriers between the national economy and the world market. In a way, it has represented a repressive approach to the demands of the social losers of the new economic model. This social restructuring has had varying impacts on different social groups and has varied from country to country. On the whole, less protection has been given to certain sectors (such as the industrial working class and peasantry) than to others (such as the entrepreneurial middle class and the new financial groups that have emerged). The capitalist class has been more able to readjust to the changing circumstances and realities of the international market and, as a result, has not only expanded in size and influence but has also become the key national winner of the paradigmatic shift. These represent some of the new social forces, particularly significant in the finance and export sectors.

3.2. Beyond Neoliberalism via Neostructuralism?

During the 1990s in Latin America, globalisation has been intimately linked with the shift to neoliberal policies. During this decade, most Latin American governments have integrated their national economies more closely with the global economy. In particular this has been achieved through trade liberalisation and the deregulation of financial markets; increased trade, capital flows, investment and technology transfer have normally resulted. The more global framework for Latin American economies has coincided with a shift from authoritarian governments (that were still significant in the 1980s) to democratic governance so that at present all sixteen mainland Latin American countries have governments elected through the ballot box. Thus, the Latin American state in the 1990s has transformed itself into a democratic system at the same time as reducing its direct influence over the economy (through privatisation and deregulation) and cutting the size of the public sector through fiscal reform.

Globalisation, or Latin America's closer integration with global markets, has thus been associated with a shift to a more representative and participatory political system (Haggard and Kaufman, 1995). To a certain extent this may have obscured the negative social impacts of neoliberal reform. Increased unemployment and poverty, an even more unequal distribution of income and a further rise in the informal sector have resulted. However, democratic governments have attempted to explain or justify this in two ways.

First, there is the argument that the negative social impacts reflect a short-term adjustment to new conditions and will be soon turned around. Unemployment and poverty will increase as the economy adjusts to new external realities and as the country forges a more competitive economy.

The second justification concerns the 'lack of alternatives' argument. Latin American governments point to the political economy of neoliberalism becoming the basis for policy in other areas of the world that are identified as 'competitor' regions in the world economy - Eastern Europe and East Asia, in particular. It becomes paramount, according to Latin American Treasury ministers, to 'modernise' their economies in order to make them more competitive in world markets and so that they can better take advantage of global forces. Such modernisation is necessary in order to successfully attract foreign investment from global corporations that have a wide range of options of where to invest.

To what extent will the shortcomings of the neoliberal model be recognised and social

movements be created outlining alternative development strategies and socio-political scenarios? It could be argued that, in order to make Latin American countries more competitive in a globalising world, neoliberal reform cannot simply be about making economies more market-oriented. The Chilean case shows that substantial and critical institutional reforms have to take place over a long period of time in order for a Latin American country to become more competitive and less prone to international crises. Institutional reform in Chile has stretched over a period dating from 1964 and has emerged from a wide variety of political ideologies. Reforms to landholding, to the ownership of national mineral wealth (notably copper), to health and personal pensions, to financial institutions and to taxation have been notable examples that have occurred under governments of widely different ideologies. Martínez and Díaz (1996) argue that it is the combination of these profound institutional reforms with market-oriented neoliberal policies that lie behind Chile's sustained economic success during the 1990s. This has a great significance for the theme of sustaining economic growth within an increasingly competitive world.

The future relationship of the state with the process of economic change is thus a key issue. The ideological shift to limited government involvement in the economy may not produce the modernised, competitive economy that is anticipated from neoliberal reform. If this is the case, sustained economic growth will not occur - which is seen as the prerequisite for governments to address the social debt and begin to rectify the highly unequal patterns of income distribution.

There is also the question of the relationship between economic integration, neoliberalism and globalisation. For year 2005, it is planned that the Americas will be one large free trade zone. This will involve integrating the dominant economy of the twentieth century with sixteen much smaller but highly diverse countries in Latin America. Geopolitical reasons have become important additional factors in this process. Neoliberal reform and the opening up of formerly inward-oriented economies have produced a more successful record of economic integration in the 1990s than in the 1960s, the previous decade in which economic integration was seen as a key international policy in Latin America. In geopolitical terms, it will still be necessary to resolve the problems inherent in a strong centre-periphery pattern that economic integration of the Americas (in contrast to other schemes) will be characterised by.

It is important to emphasise that the neoliberal model has evolved - from an often

narrow and economistic interpretation to the Washington consensus¹³ and on to a more social democratic interpretation in Chile and Brazil. Indeed some form of convergence between neoliberalism and structuralism seems to have occurred in some parts of Latin America.¹⁴ There is a reappraisal of the theories of the 1950s and 1960s and the evolution of a neostructuralist position since the late 1980s.¹⁵ It could be argued that neostructuralism has gained some influence on government policy in Latin America, such as with the Concertación regimes of Chile and the administration of F.H. Cardoso in Brazil in the 1990s.

Neostructuralism has taken on board some elements of neoliberalism while retaining some of the core structuralist ideas. While some authors have dismissed neostructuralism as being merely the human face of neoliberalism and its second phase (Green, 1995: 189) it is certainly true that there has been a shift of structuralism towards neoliberalism. However, there are differences, some of which have already been mentioned when discussing the contemporary relevance of structuralism and dependency theories. These differences concern mainly their respective views on the relationship between developed and developing countries as well as between state, civil society and the market.

The neoliberal view is that further liberalisation of the world economy is required and that this will benefit the developing countries considerably. In contrast, neostructuralists, as well as dependency writers, view the world economy as a hierarchical and asymmetric power system which favours the centre countries and the TNCs in particular. They are thus more sceptical about further liberalisation, believing that it will act to enhance the inequalities between and within countries; powerful global groups located in developed countries would ensure that the benefits of global liberalisation would be channelled in their favour.

As for the relationship between state, civil society and the market, neostructuralists

¹³ For an excellent contribution on the evolution of neoliberal thinking, see Kahler (1990).

¹⁴ Such a convergence is much welcomed in certain quarters such as by Kahler (1990: 61) who argues that 'the polar sets of ideas that have confronted each other for much of the postwar era are not politically viable guides to stable and successful policies in developing countries'. Meanwhile certain marxist intellectuals very much oppose such a convergence, see Petras and Morley (1992) and Harris (1995).

¹⁵ For some key writings on neostructuralism, see Rosales (1988), Ffrench-Davis (1988), Sunkel and Zuleta (1990), Fajnzylber (1990), ECLAC (1990 and 1992), Lustig (1991), and Ramos and Sunkel (1993). For a comparison between neoliberalism and neostructuralism see, Bitar (1998) and Sunkel (1994). For a critical assessment of neostructuralism see C. van der Borgh (1995).

give a more important role to the state in the process of social transformation and are eager to involve the disadvantaged groups of society in this process, particularly as it has tended to exclude them. Meanwhile, neoliberals desire a minimalist state, putting the market at centre stage as they believe it to be the most effective transformative force; the less constraints that are put on the free operation of the market, the better for the national economy, society and polity.

Neostructuralism should not be interpreted as caving in to neoliberalism nor as an indication that structuralism was wrong but rather as an attempt to come to terms with a new reality. In this sense structuralism is showing an ability to adapt to changing historical circumstances rather than remain frozen in the past. Certainly structuralism made mistakes like its trade pessimism and its technocratic conception of the State. Despite the shortcomings of neostructuralism it is the only feasible and credible alternative to neoliberalism in present historical circumstances. The main lesson neostructuralists take from the East Asian NICs is the need to selectively integrate into the world economy and create competitive advantages through a well designed industrial policy. Such an industrial and export policy tries to continually exploit niches in the world market and shift upstream to more skilled, technologically advanced and higher value added industrial ventures. Policies to improve the knowledge base of the economy and national technological capability are seen as crucial for long term growth. Thus, the importance of education continues to be stressed, although less mention is made of the need for land reform as this has become a politically sensitive topic in many Latin American countries.

Neostructuralism gives more importance to market forces, private enterprise and foreign direct investment as compared to structuralism but argues that the State should govern the market. However, in neostructuralist thinking the State no longer plays the pivotal developmental role that it did under structuralist ISI as state enterprises are largely limited to provide essential services like health and education but no longer undertake direct productive activities through ownership of industrial enterprises or otherwise. Also the ability of the State to steer the economy is limited as protectionism and subsidies are used only in a restricted and sporadic fashion in stark contrast to the ISI period. The imperative of achieving and maintaining macroeconomic balances is recognised as now price and fiscal

stability are a condition for growth which was not necessarily the case in the past.¹⁶ Another key element of neostructuralism is its greater concern for equity and poverty reduction requiring special action by the State and involving also NGOs.

The position with regards to the world market is much changed as export orientation rather than import substitution is now the strategic direction which the economy has to take. But this shift towards world markets by the neostructuralists takes place within a strategy of 'development from within'. That is, 'it is not demand and markets that are critical. The heart of development lies in the supply side: quality, flexibility, the efficient combination and utilisation of productive resources, the adoption of technological developments, an innovative spirit, creativity, the capacity for organisation and social discipline, private and public austerity, an emphasis on savings, and the development of skills to compete internationally. In short, independent efforts undertaken *from within* to achieve self-sustained development' (Sunkel, 1993: 8-9). This means that it is society through the guidance of the State and its intermediary organisations which decides in which particular direction it wishes to develop its links with the world economy. Choices are, however, restricted due to the forces of globalisation as mentioned earlier.

Another key element in neostructuralism is the achievement of competitive advantages in certain key productive areas in the world market by selective liberalisation, integration into the world economy and an export-oriented industrial and growth policy. Neostructuralists are keen advocates of 'open regionalism' which they hope will enhance Latin America's position in the world economy while at the same time reducing its vulnerability and dependence, see ECLAC (1994) and ECLAC (1995).

4. CONCLUSION

In this essay it has been argued that it is misguided to dismiss structuralist and dependency theories and embrace uncritically neoliberalism. The current turbulence in global financial markets and economic crisis experienced by many NICs reveal the limitations of unrestricted liberalisation and dependence on world markets. In essence, neostructuralism and dependency are more fruitful approaches than neoliberalism for the analysis of the problems of

¹⁶ For an analysis of the debate between structuralist and monetarists regarding inflation, see Kay (1989: 47-57).

development and underdevelopment as well as for the design of appropriate policies for sustainable development. By focusing on structures and institutions rather than exclusively on prices neostructuralism and dependency perspectives offer a better guide for the study of contemporary development processes than neoliberalism.

The neoliberal model has restructured the political and economic system but has created new interest groups, particularly in finance capital and exporting companies. In addition, it has become apparent that a closer relationship with the global restricts the internal room for manoeuvre of virtually all Latin American governments. Opening up to the global economy has been a disciplining force for both capital and labour in Latin America, but the brunt of the social cost of the adjustment process has been born by labour. Mistaken policies, or those policies *perceived* as mistaken by international capital, are penalised, such as through a rapid withdrawal of finance capital exposing the vulnerability of the weaker economies. Thus voices are being raised in many quarters to further regulate and control the power of finance capital. Furthermore, if the neoliberal model is to continue, it must also continue to evolve in terms of providing improved social conditions and security for the more vulnerable and weaker groups in society as well as begin to tackle the increasing disparities between rich and poor countries as otherwise the stability of the global system is endangered.

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