

## Dependency Theory: A Useful Tool for Analyzing Global Inequalities Today?

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# Dependency Theory: A Useful Tool for Analyzing Global Inequalities Today?

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In International Political Economy, there are competing theoretical perspectives regarding the question of global inequalities and the North-South divide. One of these competing theoretical perspectives is dependency theory, which emerged in the 1950s in response to modernization theory (Matunhu 2011, p. 68; Herath 2008, p. 820). The aim of this essay is to examine how traditional dependency theory, which was popular in the 1960s and 1970s as a criticism of modernization theory, can still be a useful tool for explaining global inequalities despite the challenges of the 21<sup>st</sup> century.

Given the complexities of the contemporary world order conditioned by the emergence of neoliberal globalization, the paper focuses on the notion of “dependence” and what it entails. Theotonio Dos Santos, one of the founders of dependency theory, describes dependence as “a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected” (Dos Santos 1970, p. 231).

Finding a solution to overcome the “development of the metropolis and the underdevelopment of the satellite” (Frank 1966) and the “structure of dependence” (Dos Santos 1970) became not only a challenge, but was quite a controversial topic of discussion within the dependency school of thought. For instance, there were some who supported and agreed with the solution for creating more global equality in a socialist revolution inspired by Marxism, while others favored reforms in the international economic system (Herath 2008, p. 820). Despite these controversies, this essay mainly focuses on the basic pillars of dependency theory in order to examine how useful they are for making sense of today’s global inequalities.

The distinction between “core” and “periphery” countries is essential for the notion of dependence. Most dependency theorists use “the international system” or “world system” as a unit of analysis, with a particular focus on the role of the international capitalist system in the underdevelopment of the periphery (Sekhri 2009, p. 243; Kay 2011, p. 533). Following the world-system school of thought, Arno Tausch draws a connection to dependency theory and concludes that “poverty and backwardness in the “periphery” and semi-periphery are caused by the very peripheral or quasi-peripheral position that these nations or regions always had in the international division of labor since the beginnings of the world system in 1492” (Tausch 2010, p. 468). Tausch highlights, “a high penetration by foreign capital, a heavy technological dependence from the leading countries, the overall subordination of the productive capacities of the country towards the interests of the evolving international division of labor, [and] the concentration of exports on a few commodities and recipients” as the main features of the periphery and semi-periphery countries (Tausch 2010, p. 469).

Based on these definitions, “dependence” in the international system can be used as a measure for explaining global inequalities. In order to adequately examine the usefulness of the concept of dependency theory for explaining global inequalities, this essay deals initially with some of the constraints of dependency theory and its problem of ethnocentrism and generalization. The existence of shortcomings in the dependency theory should not automatically indicate that dependency theory is a useless approach which cannot be used at least as a conceptual orientation to the global division of wealth. Dependency theorists often draw a connection between the role of the capitalist system and the underdevelopment of the periphery. In order to illuminate the relevance of this connection for the 21<sup>st</sup> century,

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this essay also investigates the role of the financial crisis of 2008 in shaping and fostering global inequalities along the North-South divide. Finally, the paper traces how dependency theory can be a useful tool in today's globalized world in order to understand North-South and regional integration processes and their relation to global inequality.

### Dependency Theory and the Problem of Ethnocentrism and Generalization

The problem of an overall encompassing theory in explaining global inequalities is that it may lead to generalizations without considering the specific histories and developments of individual countries. This was a problem of modernization theory, which has been harshly criticized by dependency theorists, and certainly one could view modernization and dependency theory as acting in opposition and opposing each other, yet by providing categorizations such as "Core-Periphery" or "North-South", dependency theory did not substantially differ from other ethnocentric theories. The problem of these categorizations is that they are inherently ethnocentric because the "Periphery" or the "South" is characterized by socioeconomic and political backwardness, measured against Western values and standards and this simply should not be ignored. Therefore, one has to question whether distinguishing the world by providing such categorizations is useful for analyzing global inequalities.

As outlined by Theotonio Dos Santos, one of the founders of dependency theory, the feature that the countries of the periphery have in common is dependency on the core countries:

"The relation of interdependence between two or more economies, and between these and world trade, assumes the form of dependence when some countries (the dominant ones) can expand and can be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or a negative effect on their immediate development." (Dos Santos 1970, p. 231)

Following the dependency approach argumentation, it seems to be useful to lump countries that have a shared experience of colonization and economic dependence into one single category in order to explain global inequalities. But in an increasingly globalized world, challenging the question of global inequality based on arguments that rely on neocolonialism and economic dependency becomes difficult to sustain (Randall 2004, p. 42).

In particular, the collapse of the Soviet Union and the end of the Cold War brought a number of changes to the world system. It suffices to say then, that the emergence of globalization in the context of liberalization and free markets became the new paradigm. Although originally dependency theorists argued that the ideal way to break out of the dependency trap and end global inequality is for the periphery to separate from the core, the post-Cold War era led to further integration rather than separation (Sekhri 2009, p. 242). The new developments in the post-Cold War era illuminate why the dependency theory lost some of its credibility as a useful approach in explaining and dealing with global inequalities.

An example for successful integration of the periphery into the core are former communist states of Europe. Former European peripheries were initially dependent on European core countries, but instead of setting anti-core policies and separating from the core, they fully integrated with the core and shifted from asymmetrical dependence to complex interdependence (Sekhri 2009, p. 249). Hence, the EU's southward and eastward enlargement also contributed to the further integration of peripheries into the core. These evolutions have weakened the assumptions of early dependency theorists' proposals to separate the periphery from the core to overcome asymmetrical dependence and inequality. It also proves that the core-periphery distinction is not a clear and static construct, but rather a social category than a geographically defined one.

The representation of countries of Africa, Asia, Latin America and the Caribbean as a homogeneous bloc has also been invalidated with the rise of five major emerging national economies: Brazil, Russia, India, China and South Africa (BRICs). Despite the effort of some countries to break free of dependency, one has to be aware that access to the benefits of globalization has been unevenly distributed, and hence fostered global inequalities along the North-South divide. According to Arno Tausch, "globalization as the *ultima ratio* of economic policies, and absolute openness towards foreign direct investments, was the dominant neoliberal agenda then, and remains so today" (Tausch 2010, p. 470). While some countries of the Global South, mostly those of East Asia, have been able to use

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the benefits of globalization for their own economic growth and adapt their economic policies accordingly, for other countries “globalization has meant rather the imposition of neoliberal structural adjustment regimes by debt-regulating International Financial Institutions” (Randall 2004, p. 50). This proves that just because some countries seem to be breaking out of the dependency trap does not mean that a trap never existed or that dependence can be fully eliminated.

In this context, one also has to consider that the North-South dependency relationship does not only create inequality between the countries of the North and the South, but also in between the countries of the South. For example, the members of the Organization of Petroleum Exporting Countries (OPEC) benefit from high oil revenues and hence are able to improve their standing in the global economy, compared to some other countries of the Global South (Sekhri 2009, p. 246). At the same, one has to be aware that OPEC member countries are still dependent on the North and highly reliant to any change in the international oil and gas market (Sekhri 2009, p. 251). The most evident example for how the dependent relationship of the OPEC member countries from the Global North can negatively affect the economic growth of these oil-producing countries and deepen the inequality gap between the developed and the developing world, manifests itself in the light of the 2008 global financial crisis which resulted from the economic downturn in the Global North and led to a sharp decline in the price of crude oil (Baffes et al. 2015, pp. 9-11). These developments have proved the accuracy of the dependency theory assumption.

As recent scholarship in the tradition of the dependency theory has shown “the emergence of a group of semi-peripheries tends to be at the expense of another group, but the unequal structure of the global economy based on unequal transfer tends to remain stable” (Tausch 2010, p. 468). Given the continuing inequality among nations, the North-South divide or the core-periphery distinction can be useful instruments in providing a basis for collective action by creating and reflecting political alignments and solidarities (Randall 2004, p. 43-44). However, it is questionable how far this has happened in political practice.

There is an unmistakable contrast and distinction between the Global North and the Global South but this distinction becomes problematic when the periphery is characterized by a “shared postcolonial status” that is used as a common line of reasoning to substantiate and explain global inequalities. This “shared postcolonial status” might be used as an explanation for the inequality between Global North and the Global South, without considering the varying nature of the colonial experience. For instance, there are countries which have never been directly colonized but are still being considered a part of the periphery (Randall 2004, p. 42).

Dependence is not always a clear, linear and constant construct but can change over time. For example, in the case of Latin American countries, after their formal independence from their colonizers, their relationship with the United States has become much more important than their postcolonial connection to Spain or Portugal (Randall 2004, p. 42). Yet, one has to be aware that despite the changing dependency relationship, the impact of colonization continued to play a major determining role. Although the United States did not officially colonize other countries; if colonization is thought of as the control of other people’s land and goods through the means of neoliberal globalization, it is clear that in the case of Latin America the dependency switch from the former colonial powers, Spain and Portugal, to the United States did not break the core-periphery distinction but rather led to the fostering of global inequalities along the North-South divide.

Rumina Sethi (2011) underlined in her book *The Politics of Postcolonialism*, the relationship between postcolonialism and neoliberal globalization by confronting the new imperialism of the United States. Similarly, in respect to the global asymmetrical economic relationship in North-South relations, Luke Amadi (2012, p. 195) has argued that the so-called “new dependency” is a result of the economic asymmetry created by the economic and technological advancement of the Global North through the means of neoliberal globalization. Sethi’s and Amadi’s arguments are supported by a postcolonial perspective, which gained popularity since the 1980s as a critique of Western liberal modernity. Although postcolonial and dependency theory share some common ground, postcolonial theory became a more popular theoretical perspective in the recent years due to their rejection of ethnocentric perspectives and a stronger inclusion of cultural perspectives (Kapoor 2002, p. 661).

Yet, when trying to explain economic global inequalities, the socioeconomic perspective of the dependency approach

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seems to be more useful than the cultural perspective of the postcolonial approach. In particular when faced with culturally polarizing discourses and the emergence of culturally driven politics, there is a need for a political economy viewpoint that connects the historic impact of Western imperialism and capitalism with contemporary dimensions of economic inequality. Despite the ethnocentric character of the core-periphery distinction, the dependency approach can provide a way to overcome culturally polarizing discourses by focusing on global economic relations and its connection to imperialism and capitalism in order to understand the broader historical context of global inequalities.

### Dependency Theory and the Global Financial Crisis

The financial crisis of 2008 has often been considered as the worst global financial crisis since the Great Depression of the 1930s. When considering the role of the capitalist system in the underdevelopment of the periphery, the financial crisis of 2008 provides an opportunity to contemplate the relevance of dependency theory in explaining global inequalities.

Immediately after the financial meltdown, Kofi Annan, Michel Camdessus and Robert Rubin warned about the negative effects of the financial crisis on developing countries, stating that “a response to the crisis that does not take into account the needs of the world’s poor – or, worse, that results in reduced levels of engagement – would be grossly unfair” (Annan et al. 2008). In particular, they warned that the financial crisis will lead to shortage in terms of financial aid to developing countries which will further increase their socioeconomic problems, widen the North-South gap and hence fuel global inequalities: “Right now, the political focus is on protecting consumers and taxpayers in industrialized countries. But poor people and poor countries could soon end up paying the heaviest price for a mess they have had no hand in creating” (Annan et al. 2008). Since major financial institutions such as the International Monetary Fund and the World Bank are mainly controlled by countries of the Global North, where the financial crisis of 2008 exploded, Annan, Camdessus and Rubin argued for a “new global system of financial governance”, which should also involve more countries of the Global South: “Poorer countries need a voice at the table, too” (Annan et al. 2008). The call for a stronger involvement of the countries of the Global South in a new global system of financial governance proves the relevance of the dependency perspective for an understanding of global inequalities. This new system of financial governance should also contribute to weaken the dependent relationship of the periphery from the core.

Petras and Veltmeyer (2013, p. 136) see “a deepening of the global divide between capital and labor in the distribution of wealth and income” as a result of the financial crisis. The North- South divide fostered by the financial crisis is in particular evident in the issue of labor exploitation, where the capitalist system profits from intense exploitation. As examined by Petras and Veltmeyer (2013, p. 142) “the increasing importance of imperialist exploitation is evident as the share of US corporate profits extracted overseas keeps rising at expense of employee income growth.” Although labor exploitation affects workers in the North as well as in the South, the results of labor exploitation are in particular devastating for the development of the South and may not lead to an eradication of global inequality but rather to a further gap between the developed and the developing world.

In light of the negative effects of the financial crisis on the Global South and on the global division of wealth, there is a significant correlation worth noting that is linked to dependency theory. Accordingly, any disturbance in the core countries will automatically have a negative effect on the periphery. Hence, the economy of the South is conditioned by the development of the economy of the North to which the former is subjected.

Despite the negative effects of the financial crisis on several countries of the Global South, one should be aware that the financial crisis does not adversely affect all economies of the Global South. Thus, we can argue whether it is appropriate to speak about a global financial crisis affecting countries of the periphery and the core in the same way.

During the peak of the financial crisis, according to Petras and Veltmeyer (2013, p. 138), the economies of the emerging Asian markets “grew on average about 8 percent a year.” Both authors warn of a generalization and homogenization of the crisis “when several of the major economies in the world economy did not suffer a major downturn and others recovered and expanded rapidly” (Petras & Veltmeyer 2013, p. 138). As observed by Paul Cammack (2010, pp. 262-363), the growth of emerging Asian markets despite the global financial crisis indicate the



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reshape of global capitalism in the sense that capitalism is not owned by the West and that a shift of economic power from the West to the East is taking place.

Largely conditioned by the steady growth of Asian markets – particularly China and India – recent research found out that despite the financial crisis of 2008 “global inequality has declined markedly since 2000” (Bourguignon 2016, p. 11). However, Bourguignon (2016, p. 13) also points out that even as inequality among countries has declined, inequality within individual countries is continuously rising: “To maintain the momentum behind declining global inequality, all countries will need to work harder to reduce inequality within their borders, or at least prevent it from growing further” (Bourguignon 2011, p. 15). Therefore, when looking at inequality from a local point of view rather than global, one can make sense of the dependency approach in the context of the continuing underdevelopment of the periphery despite an overall decline of global inequality.

At the same time, Bourguignon predicts that “global inequality will continue to fall for some time” when the economies of the developing world continue to merge with those of the developed world (Bourguignon 2016, p. 11). These assumptions weaken early dependency theorists’ proposals to separate the periphery from the core in order to reduce global inequality. Yet, one has to mention a change of view regarding this point even within the dependency school of thought. Dependency theorist Andre Gunder Frank now argues – contrary to his earlier view – that separating the periphery from the core “does not lead to development and especially in this era of globalization and the increasing interdependence of the world economy is impossible to achieve” (Kay 2011, p. 533). Retrospectively Frank admits that the question of how a non-dependent and autonomous development could be achieved and whether it would lead to more equality has never been fully answered.

Actually, it seems that the evolutions of the countries of the periphery into the semi-periphery and eventually into the core, do have a positive impact in increasing global equality. Even the 2008 financial crisis could not reverse this trend. For this reason, one needs to be cautious when using the dependency theory as a generalizing approach, stating that any disturbance in the core countries will automatically lead to a negative effect on the development of the periphery as a whole.

Nonetheless, the 2008 financial crisis showed the constraints of the global capitalist system and questioned the strength of the neoliberal economic philosophy in contributing to more economic equality. According to Petras and Veltmeyer (2013, p. 148) capitalism in the form of neoliberal globalization “provides a very poor model for changing society in the direction of social equality, participatory democratic decision-making, and human welfare.”

As companies from the developed world moved their production to developing countries, some of these countries, particularly emerging Asian economies showed a rapid increase in productivity and technological progress and started to converge with those of the developed world, which in turn triggered faster economic growth in Africa and Latin America as the demand for commodities increased. It is exactly neoliberal globalization which can be attributed for the decline of inequality among countries, as well as for the increase of inequality within them. The outsourcing of production by manufacturing companies in the developed world saw profits rise, but wages for unskilled labor fell. In the developing world, economic liberalization reforms did not just enable the Global South to converge with the Global North, but also created new elites within those countries (Bourguignon 2016, p. 14).

The different levels of inequality among and within countries, imply to consider the different effects economic liberalization reforms had on global and domestic inequalities. One needs to be aware that economic liberalization reforms might have had positive effects on the decline of global inequality but at the same time also led to increased domestic inequality. In the context of the global financial crisis, we can clearly see a correlation between neoliberal globalization and dependency. From a dependency theoretical perspective a new international financial framework within a restructured global economic system, which moves beyond neoliberalism and capitalism, would be needed in order to achieve global equality in the long term.

### Dependency Theory in the Context of North-South and Regional Integration

The relevance of dependency theory for understanding North-South and regional integration processes and their

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relation to global inequality becomes visible when examining the Cotonou Partnership Agreement (CPA), which was signed in June 2000 and expires in 2020, between the European Union (EU) and the African, Caribbean and Pacific (ACP) countries. The aim of the Cotonou Partnership Agreement was initially to set up an entirely new framework for trade and investment relations between the EU and the ACP states.

However, a report on the future of ACP-EU relations released by the European Centre for Development and Policy Management argues that maintaining a partnership between the EU and three geographically distant regions, which are mainly connected by its colonial past, seems to become less important (ECDPM 2016: xi-xii). In particular, when assuming that North-South development cooperation is based on unilateral aid transfers and dependency, it seems to be more beneficial to focus on individual regional development cooperation in order to effectively contribute to the reduction of global inequality.

The promotion of free trade agreements should have benefited not only the EU but also ACP countries to fully integrate with the global economy and eliminate the inequality gap between the developed and the developing world. However, ACP-EU trade agreements had rather a negative impact on regional food-processing industries since they negatively affected the market conditions for ACP producers of competing products. ACP-EU trade agreements often led to the undermining of local prices in ACP countries and in turn negatively affected the income of its population at various stages, in particular of those involved in agricultural production and processing (Ulmer 2004, p. 56).

As criticized by the African Union, “the debate on the future of the ACP-EU partnership has been primarily led by the EU and ACP institutions in Brussels”; despite the fact that this debate “also concerns the African Union (AU) as the large majority of ACP countries are also members of the AU” (African Union 2015, p. 1). This implies that ACP countries are not equal and independent actors in the ACP-EU partnership. As a result, the implementation of the Cotonou Agreement fits the definition of dependency.

While North-South integration seemed to have failed to lay the foundation for an equal partnership, the idea of establishing regional integration projects – and in the context of dependency theory, separating the periphery from the core – seems to be an alternative way to improve the standing of less developed countries in the global economic system, and to reduce their dependence on other world regions, and hence contribute to the elimination of global inequality.

For developing countries, regional integration may create a more stable economic policy environment and help to “increase their power in interregional or multilateral trade negotiations” and may help to obtain “better access to other regions’ markets” (Krapohl & Fink 2009, p. 2). Furthermore, it could help to attract foreign direct investment (FDI), although it is contested to what extent developing countries are gaining benefits from FDI (Sekhri 2009, p. 250).

The focus on regional integration may be an attempt to separate the dependent relationship of the periphery from the core. Yet, regional integration in the South is generally less successful than in the North. Krapohl and Fink (2009, p. 3) define the “low level of economic development” and the “undiversified production structure” as main obstacles for successful regional integration. Thus, “the regions of the South remain dependent on trade with and foreign direct investment or development aid from other world regions” (Krapohl & Fink 2009, p. 3).

While regional integration in the North is dominated by intraregional interdependence and can become a “self-sustaining process”, the success of regional integration in the South is conditioned by their dependence from the North. However, regional integration in the South can show some success as long as it is supported by the North (Krapohl & Fink 2009, p. 4). This also proves the important role of the Global North in the shaping of global inequalities, because their engagement can decide the positive or negative outcome of regional integration projects in the developing world.

### Conclusion

The main problem of using dependency theory as an overall encompassing premise for making sense of global inequalities is that by providing categories such as “Core-Periphery” or “North-South”, it may lead to generalizations

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without considering the specific histories and developments of individual countries. One has to question whether distinguishing the world by providing such categorizations is useful for analyzing global inequalities.

The end of the Cold War and the emergence of globalization and neoliberalism brought a number of changes in the international system. Originally, dependency theorists argued that the ideal way to break out of the dependency trap and end global inequality is for the periphery to separate from the core, but the post-Cold War era led to further integration rather than separation. This outcome ultimately proved that separation from the core countries was not a viable course for the countries on the periphery. These evolutions have weakened the assumptions of dependency theorists' proposals to separate the periphery from the core to overcome asymmetrical dependence and inequality.

Despite the effort of some countries to break free of dependency, one has to be aware that access to the benefits of globalization have been unevenly distributed, and has fostered global inequalities along the North-South divide.

When considering the role of the capitalist system in the underdevelopment of the periphery, the global financial crisis of 2008 provides an opportunity to contemplate the relevance of dependency theory in explaining global inequalities. Although the financial crisis did not adversely affect all economies of the Global South, in particular the economy of countries, which heavily rely on development aid, is conditioned by the development of the economy of the core countries. Also, oil-producing countries that are highly reliant to any change in the international oil and gas market are dependent on the development of the economy of the Global North, which proved to be evident in light of the 2008 financial crisis and led to a sharp decline in the price of crude oil. However, as shown by the rise of the BRICs, it seems that the evolutions of some countries of the periphery into the semi-periphery and eventually into the core, do have an overall positive impact in increasing global equality. Even the 2008 financial crisis could not reverse this trend. And so, one needs to be cautious when using the dependency theory as a generalizing approach, stating that any disturbance in the core countries will automatically lead to a negative effect on the development of the periphery as a whole. Nonetheless, the 2008 financial crisis showed the constraints of the global capitalist system and questioned the strength of the neoliberal economic philosophy in contributing to more equality on a global scale, since neoliberal globalization can be credited not only for the decline of inequality among countries, but also for the rise of inequality within them.

The examination of the North-South integration process, and the Cotonou Partnership Agreement in particular, revealed that developing countries are not equal and independent actors in a North-South partnership. It seems that North-South integration failed in laying a more viable, fair and equal partnership between the developing and developed countries and arguably restricted and purposely took advantage of countries on the periphery. These developments paved the way for the idea of establishing and launching regional integration projects in the Global South. Yet, despite the efforts of successfully establishing regional integration projects in the Global South, the standing of less developed countries on the global economic stage was still characterized by dependence on the Global North. This was due to persistent forms of dependency through trade relations, foreign direct investments and development aid.

In conclusion, this essay has demonstrated that the existence of shortcomings in dependency theory does not mean that the dependency approach cannot be used as a conceptual orientation to the global division of wealth. On the contrary, this essay has illustrated that several thoughts and concepts from the dependency approach are still applicable for making sense of global inequalities in today's globalized world.

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