# Development with Asymmetries: The Third World and its Post-War Development Strategies

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*From time to time TJSGA will issue essays on topics relevant to The Living Wages North and South Initiative (TLWNSI). This paper is the fifth in the series "The Neo-Capitalist Assault" –a collection in development about Neoliberalism.*

*The essay is of fundamental importance in relating the unequal economic relations between North and South and the need to change the current order. It focuses on the Third World, especially on Latin America and Asia, on the various development strategies followed, the results obtained and the obstacles encountered in the process. The author identifies and analyzes the external and internal factors that have jeopardized Third World development. The objective is to show the realities of Third World development and how, despite all the hurdles and because governments were committed, there was true social progress during the thirty years that followed World War II. The essay opens by stating that, after World War II, democratic values embodied in the UN charter moved to centre stage as the guiding principle in the management of world relations.*

**Summary**



With the end of the Second World War, fascism was finished in Europe and the rise of democratic values moved to the front stage. Indeed, aside from the new problems of international relations, which concentrated between the two poles, East and West, democracy gained new meaning as the only form to peacefully resolve human conflict, even between non-democratic governments. This sentiment was embodied, above all, in the creation of the United Nations charter; for its charter, which seeks to harmonize relations between nations and to secure peace, is based on its democratic voting system. The idea of democracy as the main vehicle for the management of world relations was upheld in the UN as the guiding principle. This is still true despite the fact that many UN members are not at all democratic and that some members exert special privileges as centres of power. Nonetheless, in an imperfect world society the UN still is our best achievement in international relations.

### *Democracy and Economic Development*

With the rise of democracy and of the Keynesian paradigm as the guiding principles of political and economic relations in a vast part of the world, the concept of the Welfare State also rose to become a central responsibility of democratic governments. It was now quite clear that the invisible hand of classical economics did need an agent that would compensate for the cyclical excesses of free enterprise and that the agent that would act as a balancing force would be the government. It was now clearly understood that the main responsibility of every government, boasting to be democratic, was to procure the general welfare of all ranks of society with the Welfare State as the key compensatory measure.

This view also became an important feature of the developing countries at the end of the war, especially among the larger countries of Iberian America as well as some countries in Asia and Africa. This was part of their quest for economic and/or political independence and true social development. It is under the perspective for the need of democracy and for the central role of governments in regulating their economies, that I will examine a period of thirty years, between 1950 and 1980s, of economic relations between the rich North and the poor South. In this, I will explain how the asymmetrical economic terms between the developed and developing worlds allowed, to a significant measure, the good welfare of the Northern economies at the expense of the Southern economies. Yet, during this period, despite all the obstacles, the South found a small window of opportunity and achieved true social progress.

Indeed, if there has ever been a time when many of the countries of the Third World have experienced real economic and social development, it was from around 1950 up to the beginning of the 1980s. Then came the crisis in full force. In Iberian America, it hit particularly hard. In that part of the world, the 1980s were the so-called "lost decade", and the 1990s have not been much better. As a consequence, except for the so-called "Asian Tigers" –South Korea, Malaysia, Taiwan and Thailand– few other countries were able to sustain their previous economic development beyond the early 1980s.
But, in the period of thirty years between the end of the war and the recession of the 1980s, real economic growth materialized in many developing nations. Low-income countries increased their per capita incomes, during the 1960s, at an average rate of 1.8% and at 1.7% during the 70s. Middle-income countries grew an average of 3.9% and 2.9% during the 60s and 70s respectively. These were strong per capita growths considering the tremendous population explosion that both middle and low-income countries also experienced.[1] In contrast, if we look at the entire 1965-96 period, we see a sharp drop in income per capita, despite a significant decline in population growth after 1980. In the case of the low-income countries, excluding China and India, the growth for the 1965-96 period averaged only 0.4%; and for middle-income countries it was only 0.9%. Iberian America dropped from 2.9% and 2.6% annual averages in the 60s and 70s, respectively, to an average of only 1.1% for the 1965-'96 period. After 1980, the East Asia and Pacific region was the only one able to experience a sustainable growth pattern. This region showed very strong average income per capita growth rates of 4.9% and 6.2% during the 60s and 70s and an average of 5.5% for the entire 1965-96 period[2] (see table 1). In stark contrast, regions such as the Middle East and Sub-Saharan Africa experienced real economic reversals during the 1980s averaging, respectively, net decreases of –1.8% and –0.2% for the 1965-'96 period. To be sure, after 1980 the true story for most developing economies has been of recession and despair.

Nevertheless, relative to the period between the end of the war and up to 1980, the social and economic indicators of most developing nations reflected improvements in the standard of living of the majority of the population and these countries experienced a reduction in the gap between rich and poor. Moreover, the contribution of the South to the world economy consistently increased before it plunged in the 80s to levels twenty or more years prior. The share of the South (low and middle income countries including former Soviet Block transition economies) in the world economy in 1977, just a few years before the crisis unfolded in full force, was 34.6% of the world's total GNP[3]. This was the South's share of the World's economy despite the impact of the first oil crisis of 1973-1974. In contrast, by 1997, after the second oil crisis, after the fall of the Soviet block of centralized economies and after the subsequent dismantling of the Keynesian paradigm and its replacement by neoliberal monetarism, the share of the South had dropped to a meagre 20.3% of the world's total GNP[4]. From the opposite perspective, the same countries, ranked by the World Bank as high income economies in 1977, increased their share of the world's Gross National Product from 65.4% to 79.7% in 1997; an extremely dramatic increase in 20 years, especially if we consider that the Third World had consistently out paced the North in economic growth in the thirty-year period after the end of World War II.

*Table I Average Annual % Growth per Capita*

| | 1960-1970 | 1970-1980 | 1965-1996 |
|---|---|---|---|
| Low income countries | 1.8 | 1.7 | 0.4 |
| Middle income countries | 3.9 | 2.9 | 0.9 |
| East Asia & Pacific | 4.9 | 6.2 | 5.5 |
| Iberian America & Caribbean | 2.9 | 2.6 | 1.1 |
| Middle East & North Africa | 4.7 | 2.9 | -1.8 |
| Sub-Saharan Africa | 5.8 | 3.4 | -0.2 |
| Low & Middle income countries | 3.4 | 2.8 | 1.6 |

Source: World Development Indicators, 1998
Informe Sobre el Desarrollo Mundial, 1978
The World Bank

In the development attained by developing countries in this thirty-year period, there were several circumstances their favour. First, the reconstruction of Europe and Japan put the world economy on a very strong expanding trend. The U.S. devoted over $12 billion dollars to the Marshall Plan for the reconstruction of Europe alone. Thus, while the Europeans were recovering, they had little to export and for several years remained net importers from both developed and developing nations. Almost concurrently with the reconstruction of Europe, the Cold War era arrived in 1949 as the conflict between the U.S. and the Soviet Union escalated. This event moved the U.S. to secure the world's capitalist system. As a consequence, if at first the U.S. had not provided much financial support to Japan, when the Cold War arrived, the U.S. moved swiftly to provide strong support for its recovery. A year later, the Korean War unfolded, and the U.S. also moved to provide strong economic support to South Korea in order to secure the capitalist system and its geopolitical hegemony in that region. It was a very logical move; in order to secure the capitalist system against the intrusion of Communism, it was imperative to make it successful by supporting some level of prosperity, especially in those regions were the threat of communist intrusion was most prevalent. Thus, for the U.S., the need to invest in strategic geopolitical areas, such as in Japan, South Korea, Taiwan and, most prominently, in Europe, made all the sense in the world.

This situation created a window of opportunity for the developing world in the 1950s. At the beginning of the post-war, most developing economies were still relying predominantly on the production and exporting of commodity products. However, as Europe and Japan recovered from war during the late 40s and 50s, commodities enjoyed high demand. Thus, at that time, the price of produce and of raw materials for manufacturing was stable, and many developing countries became creditors of the Northern countries who were importing much of these commodities. Of course, this could not last for a long period of time; and, by the end of the 1950s, the prices of commodities became more volatile as their demand began to behave erratically. It was only the beginning.

This turn of winds for the South set things back to the old days before the war, when the South was relegated to the supply of raw materials at erratic prices in exchange for manufactured goods that were consistently increasing in price. It was part of a traditionally unfair arrangement between North and South. Thus, the odds for the South to achieve economic development remained part of an unequal economic order; an order which was a true system of economic and political dominance of the developing countries by the developed nations, led by the U.S., and its imperialist interests.

### *The New Imperialist Recolonisation – the Exogenous Factor*

To begin to understand why many developing countries have suffered such a heavy reversal of fortune and why, in spite of several decades of true development, the Third World remains impoverished, we need to look at the exogenous and endogenous factors affecting its development from inception. Let me then start with the relations with the North, the exogenous factor.

As the former European colonies of the XIX and XX centuries became independent nations, after World War II, U.S. imperialism took over and consolidated in several regions; especially in the Iberian American nations. But, in contrast with the European empires, the U.S. sought to impose its hegemony through a new kind of colonialism; one where economic control need not exert formal political control. Through economic and political coercion, undermining local democratic movements that aimed to free people from traditional oppression, the U.S. established its neo-colonial empire. Its imperial quest of the "Pax Americana" began formally in 1898 when it sought warring with Spain in order to take control of its last remaining possessions in the Americas and the Far East. Cuba and Puerto Rico, in the former, and the Philippines and Guam, in the latter, became its first imperial protectorates. And, during the first half of the century, in spite of being involved in the two wars, the U.S. still had time to increase its grip on Iberian America. This occurred sometimes through military aggression, as in the case of the bombing and occupation of the Port of Veracruz, Mexico in 1914 and the establishment of a U.S. protectorate in 1916 on the Island of Hispaniola, both in the Dominican Republic and Haiti. These interventions were the work of the so-called idealist and progressive U.S. President, Woodrow Wilson, who supposedly advocated his ideal of national self-determination –but obviously not in the Americas. In many other cases, political and economic coercion were sufficient to exert control and became the instruments of U.S. neo-colonialism.

Let me further explain the strategic rationale behind neo-colonialism. Colonialism is a system of exploitation of the economic resources situated outside the national territory of a powerful nation-state. Colonialism is the essence at the heart of empires. This system, in its modern version, developed in Europe in the XVI century and it expanded in various degrees, lasting until the first half of the XX century. Colonialism, in economic terms, was at the centre of the mercantilist ethos of monopolistic control. When *laissez faire* ideology replaced mercantilism in the European metropolises, supposedly in search of free and equitable opportunities for individual entrepreneurial spirit, mercantilism remained in place in the colonies. And when new colonies were added during the industrial revolution, such as in the case of India, no free enterprise spirit was obviously allowed. These colonies were placed under the direct and formal political jurisdiction of the metropolitan governments, through the development of a bureaucracy designed to control them. Colonialism is the highest stage of untrammelled Capitalism. It places the exploitation of economic resources, with the obvious intention of monopolizing the creation and accumulation of wealth, at the centre of all colonial activity. A colony is, therefore, a monopolistic enterprise and it could carry overwhelming power. For instance, the power of the British East India Company grew to a point that it was allowed to coin currency and to exert direct jurisdiction over British subjects, meaning Indian nationals.

Neo-colonialism was the natural prolongation of the previous state. With colonialism came the metropolises and the colonies. With neo-colonialism came the centres of power and the periphery. With the periphery, political absorption was no longer necessary. In the colonies, as slavery was gradually abolished, all free men subjects of an empire became its citizens. Thus, since the naturals of the colonies could now migrate to the metropolises, this became an unintended disadvantage. For the European stock of the metropolises did not generally mingle with the indigenous stock of their colonies, for the former were inherently racist.

There were, of course, various types of colonies. Some metropolises had colonies that were not much more than trading posts, such as Hong Kong under the British or Macau under the Portuguese, which exerted little influence on China. However, in those cases where the metropolises took control of the entire territory, such as in India, things were much different. The big difference was considerable migration. Indeed, colonial subjects, in the tens of thousands, eventually moved to the metropolises. As a result, for example, we can observe today the very visible population of Indian, Pakistani, Black African and West Indies stock –originally from Africa–, who account for over two million people living in the United Kingdom. Thus, in the long run, this came to be the big disadvantage of formal political colonization.

In contrast, the idea of having a periphery of client states fitted much better with the preferences of the centres of power. Client states are developing countries with weak democracies or autocratic governments, which are economically and, when necessary, politically controlled by a centre of power; but they are not politically absorbed by the colonizing power. This way, modern empires could exploit the resources of their client-states, extracting their raw materials and selling to them manufactured goods, without, in principle, the previous disadvantages, and still pay lip service to their clients' "new found freedom."

This is how neo-colonialism came about. Moreover, as part of this order, the terms-of-trade imposed on the neo-colonial client states were, of course, very unfair. The client states were relegated in the international division of labour and trade to supply raw materials at erratic prices in exchange for manufactured goods. As could be expected, in order to impose these neo-colonial terms-of-trade, the centres of power had to develop local partners in the client states who would guard their economic interests. And, these, naturally, were the oligarchic elites of the new nations. Why was this possible if the terms-of-trade were negative to the South? Because they were still a profitable operation for the oligarchies at the expense of labour.

This shift from colonialism to neo-colonialism began at the end of the XIX century, and it took force during the first half of the XX century. Good examples were the separation of Panama from Colombia in 1903 by the U.S., for both geopolitical and economic reasons, in order to have full control of the isthmus for the building of the Panama Canal; the repeated U.S. interventions in Nicaragua in 1909, 1912 and 1926, for geopolitical reasons; the direct control as protectorates, under the League of Nations' mandates, of many former Ottoman empire territories, namely, of Egypt, Palestine, Jordan and Iraq by the British, and of Lebanon and Syria by the French; and the partition of Iran into Russian and British areas of influence; all during the first half of the XX century and all for economic as well as geopolitical reasons. As for Africa, the transition from colonialism occurred last. During this century, there were still many colonies that did not gain independence until after World War II. And this has occurred through a long and conflictive process that has taken all of the second half of this century and it still remains not yet consolidated.

Then, a new stage of neo-colonialism began to develop. Concurrent with the formal decolonisation of much of the Third World, the transition into client states, as suppliers of raw materials, has been transforming itself into an industrial neo-colonialism. Client states would first supply cheap labour to extract raw materials and purchase manufactured goods. But their quest for economic independence moved many countries towards the route of industrialization, as they reacted to stop their dependency as commodity suppliers under disadvantageous terms-of-trade.

This was clearly the case of Iberian America and Asia. But not surprisingly, this strategy did not meet significant opposition from the centres of power. For industrialization was carried out, to a large degree, with the participation of their corporations. It so happens that this arrangement fitted perfectly with their preferences to maintain their economic control. By overwhelmingly owning the technology required for most industrial processes, corporations were able to exert a very strong economic control on the South's strategy of industrialization. Moreover, strategically, it became a perfect fit with their need to expand beyond their domestic markets, to acquire both new consumer and industrial markets, in order to secure continuous growth, the continuous growth of the North's larger domestic corporations, that is. This expansion of operations into foreign markets later gave birth to the global corporation, the MNC, which could expand beyond its original market and become a multinational entity. The multinational corporation, as it reduced the weight of its home business, became an economic power with no nationality and no binding laws to control its activity, if it so desired; all of this occurring under an ideal economic order: the neo-colonial centre-periphery system.

### *An Asymmetric Economic Order*

From the very foundation of the institutions that were created to govern the economic and political relations of the nations of the world, the system established was a very unequal one. The United Nations, the Bretton Woods Institutions and the GATT were creations of the centres of power of the West. With the overwhelming economic and political advantage with which the U.S. emerged after World War II, its interest in establishing a new world order was inspired assuming U.S. leadership over the nations of the so-called free world. Naturally, this implied a world where the U.S. would exert a hegemonic influence where it could thrive economically and politically. In essence, because the U.S. *ethos* of a world order is, first and foremost, an order where sheer amoral and untrammelled Capitalism should reign, its view of the new world order was one in which the U.S. would secure the greatest economic benefit. In consequence, since the beginning of the XX century, U.S. political leadership has been designed to serve as the vehicle that would establish and protect the conditions for U.S. economic interests to benefit in a very dominant way. And since in an amoral and untrammelled capitalist ethos there must be many losers in order for a few winners to emerge, the new economic order was explicitly designed with this vision. Namely, in order for the U.S. to become the great beneficiary, most other nations, within the world's capitalist system, had to be at the losing end. This way, the U.S., along with the traditionally largest economies: first, Britain, its closest ally, and the member countries of the British commonwealth; then, a few of the Western European nations and, lastly, Japan could enjoy a system designed for them to profit at the expense of the rest of the capitalist world. Thus, as explained in the previous essay, there was no intention, whatsoever, to design the rules of the new world order to play a fair game.

This was, in essence, the foundation of the North-South capitalist system and of its international organizations under the vision of the "Pax Americana" for a new world order: a capitalist empire with its court of a few "notables" and a myriad of "lay" countries and the international organizations of the system controlled by the centres of power. The UN, the least unequal organization between North and South, functions with one vote per member-country; but five nations have veto rights and three of them –the U.S., Britain and France– major market economies, exert great power. And, as we know, in the Bretton Woods and the GATT, which ruled the international financial and trade systems for most of the second half of the XX century, the U.S. and the G7 have also enjoyed overwhelming power.

As earlier noted, when the new world order was envisioned and its institutions founded, the responsibility for the economic and social issues in the relationship among member-states was given to the UN's Economic and Social Council (ECOSOC). The ECOSOC's main task was to design the policies and strategies for the harmonization of economic relations and development. However, the Bretton Woods Institutions took over that role from the very beginning and followed their own agenda, dictated primarily by the U.S. and Britain. In this, the countries of the South had no say at all. Thus, in spite of significant gains in economic development, the South concluded, by the early 1960's, that the international economic order was not supportive of its development.[5] The most obvious evidence was the systematic opposition of the North to establish the ITO to rule over world trade in every aspect, especially over the issue of erratic commodity prices, which affected the South the most. The North was certainly quite content with the GATT, which regulated trade of manufacturing products only. Thus, with the rules of trade explicitly designed for the benefit of the North, the South felt that it was at the losing end. As a result, only a dozen developing countries joined the GATT initially and most remained outside, for several decades, in order to protect their economies from the unequal terms-of-trade.

The major consequence of trade is economic integration of the trading partners. This has a direct impact on the welfare of the economies of each country. With the capitalist world's economic order that emerged from the war, where the prices of the North's manufacturing products were increasing and those of the South's commodities and other raw materials were decreasing, the key characteristic emerging from this order was an unequal North-South System. The North would buy products from the South for human consumption or raw materials for its manufacturing plant at unstable and decreasing prices, and its "partners" in the South would buy, in return, the manufacturing products at a dear price. This system of interdependence was the new colonialism of the developed world over the developing world.

With the promotion of trade spearheaded by the U.S., on the immediate thirty-year period after the war, the unequal terms of trade between the North and South created a clearly asymmetrical relationship that many explain as the Dependency Theory. The theory argues that the North has always acted upon the South with an exploitative nature and has forced its political will, and, when necessary, its military will, to impose the asymmetric conditions necessary for it to profit at the South's expense. It explains that the North is in need of the South's supply of raw materials and of the South's demand for the northern manufactured goods, as well as for opportunities for investment in the South in order to sustain the growth of its economic enterprises. The theory considers that the terms of trade, foreign investment and aid are asymmetrical and, in the end, tend to extract a net benefit for the North. It explains that this is possible due to the cooperation of the local elites of the Southern states, who, for the most part, benefit from this system of economic dominance, and, thus, cooperate with the capitalist enterprises from the North in order to maintain the system. As a result, the corporations of the North and the oligarchies of the South partner to exploit the wealth of the South at the expense of the South's civil societies. In consequence, this situation has fuelled development in the North and deterred development in the South.[6]

I asked myself, why is it called a theory? I suspect that, behind this reference as a theory, is the rejection from the partners in the North and South, of such an overt reality. Although I have yet to cover all the events that occurred between Northern and Southern countries in the last fifty years, I believe that it has long been self-evident that the North's centres of power exploit the Southern nations, and, that, with the cooperation of the South's corrupt oligarchies, it has done this in various fashions since the very first years of independence of most Southern nations.

Some people, especially in the North, contest this view and they argue against the existence of a North-South economic system, even today, after globalization and the predominance of the North's MNCs. Among those reluctant to accept this reality is Joan Spero, a writer of international political economics and a former U.S. representative to ECOSOC. Spero believes that the argument that the exploitation of the South is vital for the First World's welfare is not true. She admits that it is important but not vital.[7] She claims that it does not sustain the empirical test. She supports her argument by saying that in 1960 U.S. foreign direct investment (FDI) in the South accounted for 35% whereas in 1991 it had decreased to only 25%.[8] To this claim, I argue that it is true that it has decreased, but this has been a consequence of the exploitative nature of the system itself, and of the world recession that began with the oil crises of the 1970s and remained on the brink, both in the North and South, throughout the 80s. In fact, with many of the South's economies in dire straits, the proportion of U.S. FDI going to the South moved even lower to 24% of U.S. FDI in 1978, in the middle of the two oil crises, and stabilized afterwards. Then, as Neoliberalism advanced in the South and its FDI policies were relaxed, FDI has been recovering, climbing back to almost 30% in 1997.

However, to fully rebut Spero's argument, we need to understand the mechanics of trade politics in the Twentieth-Century. The experience of the Great War, which, behind the surface, was fuelled by the antagonisms and open conflicts among the centres of power of Europe in their quest for dominating world trade, made clear the need for an agreement that would balance the benefits among these powers and the U.S. In fact, after the Great War, trade was the preferred strategy for peace of the centres of power. It was believed that trade would stop the beggar-thy-neighbour policies that moved these nations into open conflict and war. Thus, as early as 1934, the U.S., under Roosevelt, pressed for a world free trade system in order to sustain economic growth and peace. Trade was seen by many nations, and may very well still be, the engine of economic development. Unfortunately, trade also became the preferred strategy of imperialist domination.

As with everything, trade has its benefits and disadvantages, and it must be balanced in order for all countries to benefit. The economic rationale of free trade is evident: increased trade would bring increased earnings to the exporter and benefit its economy. Importing, on the other hand, generates a negative foreign currency exchange for the importing economy and benefits only the end users of the imported goods or services. If what is imported is a product or service not available in the economy, in principle, the effect is just a negative foreign currency exchange, which may or may not be compensated by the inflows generated by exports. If trade were to be restricted to the exporting and importing of goods and services available in some economies and not available but necessary in others, the overall effect depends on the terms-of-trade. If the value of the goods exported by one economy offsets the value of the goods imported, then a trade balance is achieved, an event that seldom occurs. Thus, for instance, in the case of the South's economies, the terms of trade benefited the imports of Northern manufactured goods over the value of the South's exports of commodities, resulting in trade deficits. The effect here is, again, a negative foreign currency exchange.

However, the original principle of free trade is to remove all restrictions to the trading of goods and services among participants of the trading system, which means that countries would be free to compete in all markets for the demand of their products, regardless of the existence of similar products locally produced in the markets to which they are exporting. This is a whole other game. Thus, as barriers decreased among trading partners, the benefits of free trade began to be outweighed by the disadvantage of disrupting the common good in many markets. For free trade, as part of the capitalist ethos, is a Darwinian system of the survival of the fittest. Thus, those exporters with the most competitive goods would dominate the markets and put many competitors out of business. The loss of productive capacity for an economy, because some of this capacity is destroyed by stronger, more efficient and competitive foreign companies that are allowed to export into its market, generates a decrease in welfare in that economy. For what was once a domestic entity that produced goods and generated a profit, and distributed part of its revenue between its workers, domestic suppliers and taxes, has now transferred the source of its wealth –its market– to a foreign entity. These events translate into a net loss of welfare for the losing trading nation, much worse than a simple transfer of foreign exchange.

For governments, then, free trade possesses the possibility of disrupting the welfare of its Civil Society, and it is closely guarded because the political price to pay may become very expensive. The U.S. is a perfect case in point. In the U.S., the Executive Branch negotiates all trade agreements but they fall under the direct jurisdiction of Congress for approval. Because, while the Executive Branch may be interested in expanding its economic influence abroad by supporting its private sector's position for trade and foreign direct investment, the U.S. Congress is usually more sensitive to domestic demands to protect jobs, and it also traditionally tends to be isolationist. However, despite this tradition in the Legislative Branch, the U.S. supported the economic recovery of Europe and Japan; and, thus, made a major exception by accepting asymmetric conditions in trading with them since the inception of the GATT. Europe and Japan, after they had recovered their industrial capacity, were allowed to maintain a protectionist trading policy in order to strengthen their economies and achieve full recovery and economic development.

Through protectionism, Europe and Japan grew, substantially increased their standards of living and built up large foreign currency reserves. For the U.S., it was vital to maintain and strengthen the capitalist system with the largest economies and, thus, accepted these asymmetric conditions, expecting to benefit in the long run, which it did. In consequence, the first six GATT rounds were carried out, until the Tokyo Round of 1974-1979, with this trade asymmetry (the Tokyo round occurred after the original GATT and Bretton Woods economic order had collapsed). However, the U.S had been carrying big trade deficits for the last few years, and it now pressed Japan and Europe to establish a real free trade system. But Europe and Japan's successes had been founded, all along, on having a protectionist close economy; and they were not ready at all to change that. Europe had already formed the European Economic Community to organize a common market and compete as one entity in world trade. Japan had always been a staunch nationalist power and had no intention to relax its very restrictive policies when they had proven so successful in transforming it into an economic powerhouse. Protectionism was viewed as "the" way to economic growth. When U.S. deficits ballooned in 1971, the Nixon administration took a very aggressive stance against its major partners. However, this approach failed and pressure from Congress turned the U.S. also into a protectionist mode; for the trade asymmetry experienced by the U.S. with its major trading partners was hurting its welfare.

### *The North-South Asymmetry in the Factor Endowments*

In the case of the developing world, things were much different in their trade relations with the North. In spite of consistent demands from the South for commodity stabilization agreements and for similar asymmetric conditions to those given to Europe and Japan, the U.S and the rest of the G7 refused every single time to consider them. This situation had a very clear rationale that contradicts the position of scholars such as Spero. If the South is important but not vital, why did the North systematically refuse to offer the conditions necessary for its development? Why would the U.S and Western Europe refuse every time to accept that the South be given the same asymmetric conditions that Europe and Japan enjoyed in order to achieve full economic development? If the rationale for providing asymmetric terms-of-trade was the need to preserve the capitalist system so that the U.S. could secure the prevalence of key capitalist markets which would be able to generate a sustained demand for U.S. products as they recovered as key trading partners, why would the U.S. and the G7 in turn would not apply the same logic to the South? Since the capitalist system needs to maintain sustained growth and expansion to preserve itself, why would the development of other less important markets be opposed? If the underdeveloped world was already accounting for between one-fourth and one-third of total U.S. FDI, why would they oppose their development and the stabilization of commodity prices? Spero says that it is, precisely because they are not vital for the North.

The fact is that the South plays a key role in the international capitalist economic system. In addition to the terms-of-trade advantage that the North has over the South relative to the net exchange of goods and services, the North extracts much greater margins from its activity in the South. Selling high-priced manufactured products and buying cheap commodities was one thing, but if the North was also directly involved in the exploitation of the South's natural resources to be used in its trade with the other key trading partners, this was an additional source of revenue for the companies involved. In many cases, with the support of their governments, they extracted incredible conditions to obtain the right to exploit vast resources and leave almost no part of the benefit to the South. Certainly, the workers that they employed in this exploitation of resources were also completely exploited. A perfect example has been the oil resources of many nations. For instance, in the case of Mexico's oil industry, until it was expropriated in 1938, British, Dutch and U.S. companies had exploited the Mexican oil fields in exchange for a meagre tax and paid almost nothing to their quasi-slave Mexican workers. The stark asymmetry in the share of benefits between the oil companies and Mexico and their arrogant refusal to improve the terms prompted the expropriation. Another case is that of manufacturing industries. After WW II, if a Third World company imports a manufacturing process or a brand from a company in the North, the royalties and license fees paid are, typically, one of the most onerous sources of revenue. In contrast, if a Northern company decides to invest in the South, it would generally obtain much greater returns on investment (ROI) than in the developed world, due to much lower operating costs.

The explanation to all of this is that, beyond the terms-of-trade for exports and imports, all the terms of economic activity of the North in the South (what is called the factor endowments) have been, and they still are, tremendously advantageous for the North. The Northern companies, when operating in the South, regularly obtain much greater margins because they are able to pay, with the acquiescence of the local oligarchies, insulting labour costs. They also have frequently obtained, until today, many other incentives such as tax breaks, free plots of developed industrial land, and no cost of utilities, such as water and electricity, used in their manufacturing process, for several years. A perfect and current example is the $300 million offered to Ford by the poor and rural Brazilian state of Bahía to outbid the industrious state of Rio Grande do Sul. The offer includes free land, infrastructure, state tax incentives, and no unions. Additionally, Brazil's Federal government is offering Ford a low-interest $480-million loan to help build the ultramodern plant. It is also giving Ford a 40% discount off its federal excise taxes during the plant's start-up period. What do Bahía and Brazil get in return? They get direct and indirect employment of otherwise unemployed workers, but at an extremely cheap labour cost. Thus, the low wages paid have no effect on the levels of aggregate demand, because they do not allow workers to acquire a purchasing power for anything beyond the minimum means to survive in bare conditions.[9]

This situation has generated incredible competitive advantages for the MNCs of the North that operate in the South. Spero mentions that in 1978 Southern earnings accounted for 35% of U.S. foreign earnings, even though total U.S. FDI in the South accounted for only 24% of total U.S. FDI in the World because productivity was 67% greater than in the developed economies.[10] Nonetheless, she minimizes it by asserting that total Southern earnings accounted for only 3.7% of total U.S earnings and for an infinitesimal part of total U.S GNP. That is true at a macroeconomic level; but at the level of each MNC that does business in the South it represents a very important source of profits, and in some cases, the most important source. From an individual multinational corporation perspective, the wealth extracted from the South is many times the difference between a good and a bad global performance. If it were not, why would they use every leverage available to extract the greatest possible conditions from the South? Why would they resort, at times, to bribe the South's officials; or, even worse, try to influence the U.S. government to pressure the South on their behalf, including the threat of military intervention or the design of secret plots to topple an unfriendly government such as the ITT/CIA affair in Chile in 1973 against the Allende government, a democratically elected government? Why were U.S. MNCs so much in favour of the NAFTA agreement in Mexico, signed in 1993, where the border in-bond industry, already well entrenched before the trade agreement, has exploded in growth and pays Mexican workers, on the average, less than a dollar/hour, and the local elites and the local and federal governments, who control these factories, guarantee non-unionized workers by systematically crushing any attempt to form a union? The key reason of all of this is that of every business project that a Northern corporation launches in the South, they, and their Southern oligarchic partners, generally get very high ROIs at the expense of all other participants, especially the Southern workers because the factor endowments are so much more to the advantage of the MNCs.

This is no surprise. This is the direct continuation of colonialism, as earlier explained. When the Poor Laws in England began to gradually protect the completely exploited British workers of the XIX century, the industrialists moved in full force to their Southern colonies, transferring the same exploitative structure and applied it even much more harshly. This built many of the huge fortunes of the industrial aristocracy and much of the wealth of the North at the cost of the South.

Spero argues that only the managers of the MNCs benefit, but the fact is that the entire home economy benefits from the disproportionate wealth that their MNCs extract from the South. Everyone in the North benefits directly or indirectly from this activity since this wealth is brought back to the home country and spent there in its vast majority. Thus, by the MNCs enjoying asymmetrical conditions in the factor endowments, the home country benefits in several ways. First, there is a net inflow of capital that, in effect, is used to subsidize the higher operating cost of the North. For instance, the much higher wages of the MNCs' workers in the North are subsidized by the much lower salaries paid to the workers in the South. On the average, the salaries in the South are less than 10% of those in the North. As I write these pages, there are incredible cases of MNCs workers who earn less than 20¢ an hour in places such as the province of Guangdong in China and I have recently been told that MNCs get to pay 10¢/hour in Haiti. It is estimated that between 25% to 40% of the value of the North's salaries are subsidized by the salaries of misery paid in the South.[11] Second, other operating costs are subsidized by

the greater margins in the South. Thus, once the corporate balance sheets are consolidated, the resulting performance represents the weighted average between the low costs of the South and the high costs of the North. By the same token, part of this wealth may be transferred to the consumer via low prices. This is, again, a result of a competitive situation where the efficiencies obtained in the South allow MNCs to remain competitive and maintain market share in the North by offering low prices. The North may recirculate part of this wealth extracted from the South to other parts of the South to fund new investments; but, in many cases, the capital invested by MNCs overseas is financed through foreign lenders. In fact, the U.S. at times has encouraged U.S. MNCs to use foreign sources to finance their investments in order to improve the balance of payment status. Thus, generally, the activity of MNCs in the South creates a net transfer of capital to the North, and only a few benefit individually in the South.
I ask if this is, then, a vital situation for the North or not? I am convinced it is. In fact, what has solidified my conviction is the strong push of the last twenty years towards the integration of all the capitalist economies of both North and South under even more uneven conditions for the South. This U.S.-lead Northern push clearly attests to the crucial role of the South in today's global capitalist system.

Overt or disguised military intervention provides additional evidence of the South's importance to the North. There are many instances of aggressive U.S. intervention all over the world to protect its economic interests. This occurs when an unfriendly group reaches power and tries to "rock the boat," of the North-South system. When this occurs, the imperial forces are unleashed in many creative ways, such as in the case of the Contras in Nicaragua and the civil war in El Salvador or the boycott of any regime that opposes U.S. hegemony. These are tiny countries with even tinier economies. Why, then, does the U.S. boycott any democratic movement and has supported for decades oppressive dictators such as the Somozas if the South is not critical? The reason is that the exploitation of the South is indeed critical and plays a vital role to preserve the North's wealth. Without the advantageous terms of the factor endowments and the terms-of-trade, the wealth and power of the Northern economies would not be near what it is today, and the Southern economies would be in much better shape and much closer to a democratic and egalitarian ethos. Therefore, for the North's sake, it is absolutely critical to maintain the terms-of-trade and the factor endowments on the side of the North's MNCs, even in regards to banana companies in tiny economies. That is why any attempt to achieve social justice through wealth redistribution is systematically opposed. Thus, the existence of asymmetric conditions between the North and South is vital for the North's need to sustain its economic growth and remain competitive in its Northern sphere. This is the capitalist international economic order, which works based on rich countries and poor countries that each plays a role in the international division of labour.

To be sure, I am not the first person to expose this reality. Many scholars believe in this system. Immanuel Wallerstein, at the State University of New York's Braudel Centre, developed a theory that is very much in line with the broader dependency theory earlier mentioned. Wallerstein has argued that there is one single world economic system, with different divisions of labour assigned to different areas. He explains that the capitalist system has existed since Europe went overseas to expand its economy and that it has assigned different tasks with different compensation arrangements (factor endowments). These arrangements are derived from cultural, political and economic conditions in the centre and the periphery and have become unequal when these dynamic forces act. But the unequal arrangement has been coercive in order to maintain it this way and achieve the maximum profit; and it has become reinforced by additional political coercion from the metropolises in order to achieve this goal permanently. This way Capitalism involves not only the owner appropriating the surplus of the labourers' work, but also appropriating the entire economy, for, in order for Capitalism to continuously expand and reproduce as a system, it needs to coercively control the periphery.[12] Another similar view was that of the Argentinean Raul Prebisch. Prebisch was the first secretary of the UNCTAD. He believed in a dependency theory that he explained by the gradual deterioration of the terms-of-trade between North and South. The North's manufactures were increasing in price due to unionism and monopoly markets, which resulted in higher wages and higher profits. In contrast, commodities suffered from demand inelasticity and from erratic prices due to their substitution by artificial materials and by the fact that raw material ratios in the North's manufacturing processes were declining over time. In the South, with weak democracies, labour had little chance to demand better factor endowments. Moreover, he saw this situation with little chance of improvement because labour has no mobility while capital has, a fact that has become overwhelmingly evident in the last twenty years. Other scholars such as Singer and Arghiri Emmanuel and Hoogvelt who summarizes it in one central argument shared this view. He says that the differences in development have made the price of labour, through class struggle and democracy, a more equal production endowment in the North, whereas in the South, the lack of political progress precludes it from achieving equality. Thus, the successful class struggle has replaced the *physiological* wage with what Marx labelled the *ethical* wage.[13] This is in line with the developments in the North in the post-war. While the North refused to establish a new economic order with equal terms-of-trade with the South, the support of the U.S. for the recovery of the European countries and Japan paved the way for a rapid economic development and for increased interdependence of their economies through strong trade growth. This took the economies of the North into convergence, gradually eliminating the differential in the factor endowments. Thus by 1986, the costs of production were roughly equal in the North.[14]

In the eyes of the South, this arrangement, where the North would team up and cooperate for economic development within, whilst refusing to improve the economic conditions with the South, placed the developing world in a situation that was not much different from the conditions prevalent before World War II. The only difference was the beginning of an industrialization process that was triggered by the scarcity of manufactured products during the war. However, relative to the terms-of-trade, the South remained as a key vehicle for the generation of the North's wealth, not only in regards to commodities but also in regards to the factor endowments for production of manufacturing goods, with the key factor being the cost of labour. Since colonial times, the oligarchies of the South had always been in partnership with the North. But other forces in the South were brewing in its social structure, in government and in its incipient middle classes. Thus, when the South faced a systematic Northern opposition to more equal terms-of-trade, a growing sentiment of unity and nationalism solidified the South's movement to detach itself from the North's imposed economic system. This translated into the import substitution era, especially in Iberian America.

### *Industrialization through import-substitution: Seizing the Chance*

Before World War II, some countries initiated an incipient industrialization by developing domestic industries. There was a growing struggle to improve the unequal terms-of-trade within the South and develop and increase the standards of living. Both the masses and the incipient middle classes were demanding a better deal. The Mexican revolution of 1910 is one major case. The agricultural fields were virtually in the hands of modern feudal lords who ran their haciendas as feudal castles and virtually enslaved their peons. The middle class was tiny, and there was an extremely unequal distribution of wealth. In general terms, the revolutionary struggle sought to free the peasant population in the countryside, who lived in abject poverty, and provide it with land and to develop a national industrial base, which until then was overwhelmingly in the hands of foreigners. Above all, despite the individual interests of the different factions involved, the struggle was to gain some degree of social justice by breaking the oppressive social structure inherited from colonial times. This process began after 1920. The other Iberian American nations inherited the same social structure and began their industrialization after 1930. Argentina and Brazil's industrialization began in the early 1930s; in Chile the import substitution era began in 1939 with the CORFO. As for other regions in the South, such as in Southeast Asia, industrialization began after World War II. In the so-called Asian Tigers of East Asia –South Korea, Taiwan, Singapore and Hong Kong– and other countries such as Thailand, Malaysia and Indonesia, import substitution proved a successful development strategy in the fifties and sixties, encountering limitations to their own model in the 1970s. In Africa, except for South Africa, industrialization remained in its infancy.

In some cases, the process of industrialization included the nationalization of industries such as the oil industry in Mexico. Before WW II, many countries, including the Iberian American nations, most of whom achieved independence from Spain and Portugal during the first half of the 19th century, were still economically dependent on the North. In Iberian America, the availability of industrial products was still heavily dependent on their importation from the U.S. or Europe. However, when the war began, many industries in the U.S. and Europe shifted to the manufacture of war implements, and the availability of steel products, for instance, was drastically interrupted by the needs of the war industry. Thus, Southern nations were forced to develop their own steel industry, which was incipient or non-existent, and, in several cases, to develop their own technologies. As a consequence, many new industries began to emerge in addition to the few, such as the textile industry, which were in existence since the XIX century. Thus, when the war ended and the Bretton Woods Institutions were established to serve the North's interests, and when the South's demands to seek a balanced North-South economic and trade systems were systematically rejected, the South seized the chance, initiated during the war, to industrialize and remove the dependency yolk imposed by the North.

The South's struggle to achieve a balanced deal with the North was always its first choice. Nonetheless, as this strategy proved unsuccessful and as the price of commodities continued to deteriorate, industrialization, through import-substitution, became its overwhelming priority. The developing world decided to opt out of the system in pursuit of an individual approach. This did not represent a separation from the capitalist world whatsoever. The Third World merely sought to overcome the negative economic relationship that the South had with the North. Of course, as this was a reaction to a perceived lack of good will from the North, it was engulfed in deep nationalistic sentiments fed by the North's unwillingness to cooperate and the obvious unfairness of its one-sided position.

The countries of Iberian America, which, at the time, had the broadest industrial base in the developing world, led import-substitution. As its name describes, the strategy was to develop a domestic industry that would manufacture goods, otherwise imported, and close the economy to foreign competition. On the surface this had its most obvious disadvantage in the fact that, while it certainly promoted the investment of new ventures that would generate more jobs and, thus, would generate an aggregate demand that would enhance the size of the economy, it would also pamper these new entrepreneurs into self-complacence and inefficiency by producing low quality products at high prices. Because a few domestic companies would enjoy a monopoly in their national market to sell their goods, the system would create national oligopolies that would gain high margins of profit without having to be effective, efficient and consumer friendly whatsoever. If a couple of manufacturers of television sets, for instance, were to have the entire market all to themselves, and with their borders closed to foreign competition, they could produce the lousiest TV sets and make a fortune.
Still, this was creating a synergy non-existent before, when the market demand was fulfilled by imports. Then, only the foreign manufacturer and the local distributor would benefit. Now, through import substitution, thousands of jobs were created in the new factories and many more in other new factories supplying parts to the manufacturer of the finished product. Moreover, in principle, no negative foreign exchange was supposed to be generated, except for those components where there was still no local supply or when capital goods were required for the manufacturing. But the creation of new jobs, and, thus, the generation of an aggregate demand did indeed improve the welfare of many nations during the fifties and sixties. Indeed, import substitution became the trademark of Iberian America and, despite later criticisms, it was highly successful under its own terms;[15] for this development strategy, now completely rebuffed by the neoliberal wave, achieved a substantial degree of social development. Through import substitution, by the early 1960s, 95% of Mexico's and 98% of Brazil's consumer goods were domestically produced. Moreover, in the thirty-year period between 1950 and 1980, Iberian America's industrial output went up six times, keeping well ahead of population growth.

Between 1960 and 1980, infant mortality dropped by 36%, whilst life expectancy rose 33% to 64 years.[16] To be sure, throughout the sixties and seventies, Iberian America was catching up by growing much faster than the developed world.

Import-substitution did improve the lot of millions of people, and it transformed societies with huge masses of destitute poor and incipient middle classes into a new structure where the middle classes began to represent one-third, and sometimes more than half, of the population. But import-substitution was not a panacea, and it did not solve all the problems. Import-substitution as a development strategy was based on the Keynesian paradigm; for it placed the government in the driver seat of the economy. They were now fully responsible for directing the economy and ensuring that it would serve Civil Society at large. In many cases, beginning with Iberian America, the development strategy was based on a mixed economy where the government would manage industries deemed strategic, such as oil, mining or electricity and also fill in vacuums in industrial sectors that the local private sector had no interest in entering, such as the financing of communal farming, or did not have the venture capital required for the investment, such as in the case of airlines.

### *The North's Approach Towards Import Substitution*

This situation was not at all disliked by the North. It suited the North in several ways. It created new, otherwise incipient, consumer markets. Thus, if a Northern manufacturer of consumer goods could not compete with its products in these markets, it could now generate earnings from technology, capital goods and even royalties that were frequently used to manufacture these products locally. Moreover, since, in many cases, the finished product was not entirely manufactured locally, it also created a market for components and parts. Therefore, as a whole, the South became an important market of capital goods and services and components, since the technology used was overwhelmingly Northern. Lastly, the financing of this new ventures often came from MNCs, which where the only ones with access to competitive private capital sources in the North, consequently placing the MNCs in a dominant bargaining position. This situation allowed the Northern companies to remain very active in the South in many fashions.

Import-substitution, therefore, did not mean the obstruction of FDI whatsoever. It meant regulating it in a rational strategic way to develop local industry under the best possible conditions, seeking to make sure that it would serve best the welfare of the host nations. Thus, in many cases, foreign direct investment was allowed in joint ventures, closely regulated by governments, where the arrangement was frequently controlled to secure a domestic majority in the venture, usually at least 51%. In most cases, these ventures were forged with the local private sector, but it was not unusual to close deals where the government played the entrepreneur role. There were also cases were the local majority was exempted, usually with foreign companies that were already established in the South before import substitution took centre stage in its development strategy. Instead, a focus on the maintenance of positive trade balance of payments was pursued. A typical case was the automotive industry where U.S. and European manufacturers had been assembling motor vehicles early in the century in several developing countries. In the case of Mexico, they were allowed to remain under full ownership, but they were required to integrate a minimum of 60% of local content into their finished vehicles, and no finished vehicles were allowed to be imported.[17] The obvious goal was to benefit the generation of positive foreign exchange and the development of a network of domestic suppliers to the automotive industry. No Mexicanisation of the automotive manufacturers was pursued. Instead, the emphasis was, using Keynesian terms, to serve as a "balancing agent" in order to generate the most welfare for the local economy without alienating key world players in specific industrial sectors.

In any case, import substitution developed the South's domestic industries with a relatively limited degree of local content and, frequently, with minority domestic ownership. Domestic ownership was, naturally, the first option, and it came to fruition in many cases; but, in others, joint ventures with majority and minority domestic participation, or an emphasis on the development of local integration strategies, without forcing MNCs to relinquish their ownership, were deemed the most viable alternatives and, thus, pursued.

As a consequence, at the global level, the environment for the development of today's MNCs into true global corporations became very positive. In the North, the expansion of the trade of manufactured goods through the GATT provided an ideal scenario where MNCs began to emerge as the dominant force of world trade. In the South, few countries were GATT members; but the active role of MNCs in the various modes earlier described gradually gave way to an initial liberalization of investment policies in many developing nations. This was, again, possible because not all industrial sectors were treated uniformly.

This environment triggered the MNCs to spread throughout developed and developing countries alike. By the 1970s, many developing countries were still seeking economic independence through industrialization via import-substitution. But, for the MNCs, as middle classes began to emerge in developing countries and reach economies of scale, the opportunity to sell to them in a tailored fashion began to make business sense. The MNCs, with their technological advantage and immense financial resources were in a perfect position to control the client states' markets against the competition of their incipient and inefficient domestic industries. This was beneficial even if they had to participate in a joint venture. For MNCs could not only control the lion's share of the client states' consumer markets, MNCs could also obtain earnings through capital goods and royalties for their new joint manufacturing operations.

For the MNCs' home governments, this strategy became ideal as well; they could maintain economic control without overt political exposure. Moreover, although Third World nations were still struggling to gain true independence, and many maintained, between 1950 and 1980, a tight rope on new foreign investments, the presence of the MNCs gradually expanded. This expansion set out the path towards corporate globalization, both in the developed world and in the periphery.

### *Results of Import-Substitution*

From a democratic perspective, the key element of judgment of success or failure of import-substitution as a development strategy must be the change in the general welfare of society at large. On the surface, import-substitution undoubtedly improved the general welfare of the Southern nations who embarked on this development route. Per capita GDPs, and social indicators such as education, health and life expectancy, grew dramatically during the fifties and sixties, as earlier discussed. But, also on the surface, in the late sixties and 1970s the model began to face its own limitations.

On one side were the industries wholly owned by domestic entrepreneurs. This new but incipient industrial base of the Southern economies could not continue to grow with the limited economies of scales provided by their domestic markets and its technological dependency on the North. Regional integration was pursued, and some limited progress was attained; but, for the industries to continue to grow and become competitive, they needed the economies of scale enjoyed by the MNCs that were simultaneously operating in many nations. Moreover, from a government standpoint, their closed economies, while generating a pool of new employment, also generated a self-indulgent industrial class. This class was enjoying huge margins and had no incentive to become a competitive industry, exporting in other Southern markets. For to do this it would have to accept much lower margins and upgrade the quality and overall value of its products in order to compete successfully against the much greater resources of MNCs operating in these markets.

On the other side were the industrial sectors in the hands of the MNCs. In this case, MNCs would not follow an export strategy on behalf of the host countries. MNCs would follow a strategy that would milk its host countries' operations to their maximum. This included the use of creative intra-company transactions to extract most of the revenue generated as payments for parts, technology transfers and royalties, at highly-inflated prices, in order to diminish the taxable income that would be paid to the host countries. As earlier mentioned, these sources of revenue –technology and royalty fees– have traditionally represented one of the main earnings' sources for

MNCs. Furthermore, an MNC would not export to the Northern markets for it needed to maintain manufacturing facilities under very different factor endowments in the North, which were subsidized by the wealth extracted from the South. These characteristics are considered part of the dependency theory that authors such as Hoogvelt emphasize. It is a system that has survived and replicated itself in both the North and the South for all of this century. The end result is a systematic *oligopolisation* of the economic structure and a strong interdependency of the Northern and Southern economies that form the international capitalist system.

### *Factor Endowments: the Key to Economic Development*

The very reason why MNCs were formed was to go around the protectionist tariffs that the Northern countries erected to protect their economies against imports from other Northern countries. This protectionism had given way, since the XIX century, to the oligopolies that, for a long time, had their national markets to themselves. However, after the Great War, the Great Depression, the subsequent recession in Europe and then another world war, the need for the oligopolistic companies to maintain their growth moved them to adopt a foreign direct investment expansion strategy. This made FDI in the South, under the scheme of import-substitution, a key vehicle to expansion. Concurrently, with the gradual liberalization of the Northern markets under the GATT, the MNCs established operations in these markets and became truly multinational entities. However, the conditions under which these MNCs operated in the South differed drastically from those in the North, and here is where, deep beneath the surface, lie the roots of why the Southern economies have remained underdeveloped while the Northern economies have thrived.

Earlier in this essay, I briefly referred to the difference between the factor endowments in the North and those in the South. In the U.S., after the Great Depression and the progress achieved in labour legislation and anti-trust laws, primarily during the Roosevelt Administration, workers were much better protected. In Europe, which had always been at the lead in the establishment of labour protection, the advent of post-war Keynesian economics only reinforced and consolidated the establishment of the Welfare State. Thus, with the advancement of democracy, the development of unionism gained much strength in the U.S. and Western Europe. As for Japan, by the early 1970s, its own indigenous business-labour relationship was able to put its factor endowments at par with those in the West. These events have been the key determinants of the dramatic difference in the welfare and social justice achieved between North and South; for it defined how the factor endowments would determine the distribution of wealth between labour and capital. The factor endowments, therefore, are the key elements that define the distribution of income generated in an economy. These key elements are not defined by any of the various economic theories that determine how the factors of production interact with each other. For, in essence, from an economic theoretical angle, the returns to labour are a question of supply and demand for different types of labour, from unskilled labour to highly sophisticated professional work, regardless of whether we are talking of classical, Marshallian or Keynesian market economics. In all this, the returns to labour are a question of market supply and demand. However, what can vary drastically are the criteria of what is the basic idea of a fair labour return. This is the key element that defines the drastic disparity between First World labour and Third World labour returns. The question is, then, what is a fair salary? For instance, the quality of life that can be afforded by a worker earning a minimum salary in a Northern country is dramatically different from that of a worker earning a minimum salary in the South. In both cases, the quality of life would most likely be considered that of a poor person. But the comparison between both kinds of poverty draws enormously different results. In the North, a minimum wage earner can afford to live in legally-built living quarters with all the basic services: electricity, gas, clean water systems, drainage and telephone. He can also afford to buy a used car and buy enough food and even some clothing for the family. In the South, the person would most likely live in a cardboard house with none of the above services available unless he or she steals electricity from an illegally erected pole that provides stolen electricity to a shantytown.

The point is that the endowment of minimum-wage workers in the North does provide them with a minimum, though nonetheless poor, modern standard of living, whereas it does not in the South. Moreover, this has nothing to do with the quality of their work or their productivity or the cost of living. It has to do with how the standards of living are determined in each economy. Before the imposition of the global economy, there was the argument, to justify such disparities, that cost of living standards were drastically different in the North than in the South. This criterion is still predominant. The Union Bank of Switzerland has produced an annual cost-of-living survey in the big cities of the world, both for the North and the South. The World Bank uses a Purchase Power Parity (PPP) measure to make comparisons between drastically different economies. However, this is only a delusion from reality, because what this futile exercise only shows is the cost of specific goods and services that may define a quality of life or the purchasing power equivalencies between countries. But it does not say which sectors of the population of each country can afford them. The reason is that the availability of equivalent qualities of life to equivalent social ranks in different societies has nothing to do with economics; it has to do with the level of political and democratic progress achieved in each nation. It also has little to do with the level of sophistication of the workers and the quality of their work. That is why the profit margins in the Southern economies are generally much greater than in the North. That is why, nowadays, at the heart of the global economy, workers in the South, working for the same MNC as workers in the North, and doing the exact same specialized task to produce a finished item that will be sold in different national markets of the global economy at the same or similar price, earn usually less than 10% of their counterparts in the North.[18] The key element that determines this situation is the level of democratic progress. In an advanced democracy, labour is able to achieve a much greater level of endowment of the income earned in the economy than labour in a non-advanced democracy, because in the former the laws and institutions that protect them are able to uphold their rights and allow the leverage that unions and other forms of protection give to labour. Because of this, people in the North are able to negotiate and secure, in spite of all the deficiencies of the system, a far fairer standard of living than people in the South. This reality plays a key role on the rules of the game of governments in both the North and the South and of the MNCs.

Under these rules, therefore, the MNCs in the South, between 1950 and the mid-1970s, were able to generate much greater profit margins. If they were selling technology, licenses, parts or capital goods to domestic companies, their high costs were affordable by local companies because they had lower costs of operation, especially labour costs. If the MNCs established an operation, directly or through a joint venture, their profit margins were, again, much greater than in the North due to the lower operational costs, especially the costs of labour. This established a higher standard of profit margins in the South for both domestic companies and MNCs, which primarily rested on much lower labour endowments.

### *Underdeveloped Democracy – the Endogenous Factor*

So far, I have focused on the exogenous factors determining the welfare of the South. Let us now focus on the endogenous factors. In the South, as previously discussed, the relationship with the MNCs was controlled by the local elites, both in the government and in the private sector, which did business with the MNCs under their import substitution strategy. Nonetheless, the level of democratic progress that the South had achieved did not allow it to redistribute in a fair manner its economic progress. It was impossible. The key obstacle was the permanence of the same economic structure inherited from its neo-colonial past when foreign companies were exploiting their resources and paying their local workers in the oil industry, in mining, in plantations or in other sectors miserably, with the acquiescence of the local elites. To be sure, this was not solely the fault of the foreign companies from the U.S. and Western Europe. It was also the inheritance from the traditional structure of the local elites that had exploited the majority of the population for centuries. In some countries, these elites were the descendants of the European population that colonized these countries, such as in much of Iberian America, or the indigenous dynasties that had controlled their countries for generations, such as in Iran. In either case, the merchant companies or the industrial companies that traded with or invested in the new nations dealt with these traditionally exploitative elites. The factor endowments were simply owned by these elites. Labour was in many cases a quasi-slaved social group. Therefore, the limited advancement of democracy during the post-war era, could not avoid that the same endowments of exploitation were maintained. What the foreign companies did do in every instance was to take advantage of the distribution of these endowments and exploit them directly or indirectly to their maximum advantage. This, of course, would not be possible without a tacit agreement between the local elites, both in government and in the private sector, and the MNCs.

As a result, in much of the South, the level of economic development achieved during the import substitution era was limited to the formation of an industrial base with heavy influence from the MNCs and the formation of an incipient middle class structure. However, the same exploitation of the greater part of the population remained as a key factor of production in which the local elites and the MNCs, in partnership, thrived and amassed great wealth. Again, the limited advancement of democracy, or the outright dictatorships in many countries blocked any significant changes in the structure. This is the sole endogenous factor that has precluded the South from developing. For with real democracy, the elites in the South, and their partners in the North, would not control the factor endowments to their benefit.

Far more important is that the reason why democracy has not consolidated in the South is because the centres of power, in both the North and the South, have colluded against democracy to protect their interests. During this period, the U.S government systematically participated with the elites, especially in Iberian America, to block any social movements that would attempt to change the social structure in order to achieve real democratic governments and social justice. It is true that many of these movements were leftist movements, which is the traditional excuse used by the U.S. and its local partners to crush them. But, first, it could not be expected that a rightist movement would try to overthrow its own system, obviously; and, second, many of the left off-centre governments crushed by very conservative forces with the assistance of the U.S., had gained power through truly democratic processes. The capitalist system in the South was then acceptable to the North, essentially to the U.S., and the local elites, only if these elites could guarantee an economic and political structure with the factor endowments only to their benefit. Cheap labour is the key strategic factor. This is the real reason beneath the surface, of why the Third World has remained underdeveloped. The path followed by the South, in the majority of cases, has been the result of a concerted effort between the North and their oligarchic partners in the South to exploit the natural and human resources in their national territories.

This is not to say that there were not true nationalistic movements from the part of Third World governments to try to change this structure. Lázaro Cárdenas in Mexico, Jacobo Arbenz in Guatemala and Salvador Allende in Chile, to name a few, governed with this mission in mind. But, with the exception of Cardenas, the latter were ferociously overthrown by the military elites with the help of the U.S. There were other governments that followed a more moderate nationalistic approach and tried to improve the welfare of the majority of the population very gradually; but most of them had not worked to establish a mature democratic system. They were in power to stay in power first, and any gains in economic justice were secondary to their interests. Among others, these are the cases of Suharto in Indonesia, of Marcos in the Philippines and, of course, of what became the oldest regime in the World, the PRI in Mexico. Since their group interests were first, they had governed to suit themselves, the U.S. and their cronies in order to stay in power. Even Cardenas did not try to establish a true democracy per se.

During the first twenty-five years after the end of the war, strong economic progress was achieved, with GDP's growth averaging 6% in much of the South. However, as the recession of the 1970s in the First World spilled over to the South, high corruption and mismanagement became rampant. Moreover, the oligarchies openly moved from a sense of national development to a sense of self-serving cooperation with the North. No altruistic ideas were present. How could they be, when they were clearly observing the double standard in the North? The North, which was constantly and arrogantly lecturing the South with its rhetoric of free markets, liberty and democratic principles, was upholding or trashing them as they deemed convenient. And, if there was any opposition to their interests, it was ready to impose them through military force. Between 1945 and 1970, the U.S. intervened militarily in Greece, Korea, Lebanon, the Dominican Republic, Grenada and Vietnam and colluded in the destabilization of Turkey, Iran, Guatemala, Cambodia, South Korea, Lebanon, Laos, Cuba, Dominican Republic, El Salvador Chile, Ghana, Zaire and Mali.[19] This, of course, was not at all the end of military interventionism. However, in my opinion, this solidifies the conviction of the elites of the South to cooperate with the North as partners. Why fight against imperialism when risking losing power? If the position of the North was hypocritically ambivalent depending on its geopolitical/economic interests, why not join them in their cynicism instead of fighting a losing battle? The main interest of the Southern elites was to remain in power in any way possible. If this could not be done by achieving a good degree of social justice, against the interests of the North, then this goal would be cancelled. And so, they became partners of the North, at the expense of their civil societies and, with a few exceptions, took them through a path of increased deprivation and misery.

Through this period, there were plenty of populist measures such as the nationalization of private industry under the belief that the central state would lead the economy into true economic progress. Nonetheless, although Keynesian economics required the visible hand of the government to control excesses, most of these measures were political propaganda to maintain support and to personally profit from them through cronyism. Thus, increasingly, as the world economy slowed down in the 1970s and the North became more protectionist, the Southern governments resorted to economic decisions of public investment without fiscal discipline, in most cases irresponsibly borrowing from private international financial sources. This and a populist rhetoric blaming U.S imperialism, and sometimes their own elites, were the strategies to keep the masses appeased. However, for many countries, especially the nations of Iberian America, this was only the beginning of a trend of cyclical recession and a continuous pauperizing of the quality of life of the majority of their population; as self-serving corrupt elites continued to fight democracy and neoliberal economics gradually became dominant, as we shall later see.

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