Modernization, Dependency, and the State in Asia, Africa, and Latin America

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ABSTRACT

A regression analysis of 92 Asian, African, and Latin American countries during 1970-85 produced the following results: (1) The effect of external debt on industrial growth is positive and statistically significant at high levels of state coercive capacity. (2) This effect is negative and statistically significant at low levels of state coercive capacity. (3) At middle levels of state coercive capacity external debt registered no effect. Based on these findings this paper puts forward the following three arguments: First, the “modernization” hypothesis of a positive relationship between external debt and industrial growth is more likely if state institutions are strong and capable. Second, the “dependency” hypothesis of a negative relationship between external debt and industrial growth is more likely when state institutions are weak and relatively incapacitated. Finally therefore, these two perspectives may be studied as special cases of a grander theory of development.

Much of the political-sociological research on Asia, Africa, and Latin America in the past two decades has introduced the state as an intervening variable while examining the relationship between foreign capital and industrial growth (Rubinson, 1977; Stepan, 1978; Evans et al., 1985; Evans and Stephens, 1988; Chu, 1989; Kaufman, 1990; Gereffi and Wyman, 1990; Bradshaw and Wahl, 1991; Pattnayak, 1994). Because of the recent focus on the state, the research emphasis now is no longer limited to finding out which theoretical perspective (e.g., modernization or dependency) best explains industrial growth. Rather, the emphasis has shifted towards earmarking conditions under which a positive or negative relationship between foreign capital and industrial growth is more likely. These conditions are generally linked to the role of the state in the development process in Asian, African, and Latin American countries.

It is unfortunate that thus far no serious attempt has been made to advance a grander model of development which incorporates both the modernization and dependency perspectives and the recent findings on the mediating effects of the state. If state capacity is considered an important intervening variable, then it is equally important to specify its level of operation. For instance, it is unreasonable to argue that all states have the same level of capacity to promote industrial growth.

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Since there are different levels of capacity, specifying them would have an important bearing on the extent to which the state can mediate the effect of foreign debt on industrial growth. By the same logic, it is plausible to expect a high capacity state to do better in terms of fostering high industrial growth than a low capacity state. If this is really true, then we should expect the modernization and dependency variables to show significant effects only at specific levels of state capacity. If, let us say, the modernization hypothesis that foreign capital promotes industrial growth operates only at high levels of state capacity, and the dependency hypothesis that the same retards industrial growth is found to be true only at low levels of state capacity, then we could argue that a more integrated model of development is possible.

In an effort to propose an integrated model, this paper (i) conceptualizes state coercive capacity as an important intervening variable; (ii) examines its separate mediating effects on the relationship between foreign capital and industrial growth at high, low, and middle coercive capacity levels; and (iii) tests competing hypotheses advanced by "modernization" and "dependency" theories on the relationship between external debt and industrial growth in Asia, Africa, and Latin America.

External Debt and Industrial Growth

There are different types of foreign capital. Most materializes in the form of external debt, direct foreign investment, and/or foreign aid. For the purposes of this paper, I exclusively concentrate on external debt, the effect of which on Third World industrial growth has long been of interest to social scientists. The potential direction of this relationship has been keenly explored by both the modernization and dependency perspectives.

Briefly put, modernization theorists focus on the positive relationship between external debt and industrial growth (e.g., Rostow, 1960; Stallings, 1990). As new borrowed resources are injected into the host economy, they are supposed to generate enough employment, subsequent demand for new products, and eventually help the recipient country take-off economically (also see Bierstaker, 1981: 17-19). Primarily due to low levels of per capita income, a developing country lacks sufficient domestic savings to meet the investment level required to promote high industrial growth. A shortage of foreign exchange reduces a country's ability to pay for the imported means of production (e.g., capital and intermediate goods). The availability of external debt facilitates closing of the foreign exchange gap that is considered detrimental to national development (Nowzad, 1982).

Dependency theorists, on the other hand, anticipate this relationship to be negative. They portray that external debt is inherently exploitative. They identify the potential negative effects in the form of high debt servicing payments, tied-in clauses for specific use of the debt money, and marginalization of the poorer socio-economic strata to far outweigh any potential positive effects (Furtado, 1970; Frank, 1972).