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9 The International Economy and Economic Development

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THE DEVELOPMENT of the international economy is a long, complex process that dates back to the rise of merchant empires and the transition from feudalism to capitalism in the late Middle Ages. There is a vast literature that covers this topic from a variety of historical, theoretical, and disciplinary perspectives. Obviously, no chapter can hope to do justice to the richness of the scholarship and debates engendered by the internationalization of the modern world. Similarly, the theme of economic development has been a cornerstone of social science theory and research, as well as political action and social mobilization, since the onset of industrialization in the eighteenth century.

The purpose of this chapter is to present a necessarily stylized review of the increasing globalization of economic activities, and of the interplay between the shifting features of the world economy and economic development. The argument will proceed in several stages. First, we will chronicle the major historical phases in the evolution of the international economy. Although there were flourishing systems of economic exchange that spanned much of Europe, Asia, and eastern Africa prior to European hegemony (see Abu-Lughod 1989), the periodization used in this chapter begins somewhat arbitrarily with the emergence of a trade-based division of labor in Europe in the sixteenth century. We then proceed to outline some of the salient institutional characteristics of the international economy in five periods: early capitalism, competitive capitalism, imperialism, monopoly capitalism, and global capitalism.

Second, theoretical discourse about the international economy and economic development reflects a wide range of distinct and frequently competing paradigms. For purposes of this chapter, we will concentrate on the following perspectives dealing with economic internationalization and its impact on development: theories of imperialism; development economics; dependency theory; world-systems theory; and the controversy regarding national development strategies. The fault lines for the debates between and within these paradigms vary. In some cases, they represent ideological differences between Marxist, liberal, and conservative interpretations; in other cases, they involve disciplinary disputes over the relative priority given to economic, social, political, and cultural factors. In general, however, the hallmark of virtually all the studies covered in this review is comparative historical analysis (for a complementary synthesis of this genre of research, see Evans and Stephens 1988). To better integrate the substantive concerns of this chapter, we will look specifically at what these theoretical perspectives have to say about the impact of a nation's position in the international economy on its possibilities for economic development. Furthermore, we will highlight the significance given to nation-states, the state, firms, and social classes as units of analysis in these approaches.

Third, we seek to give greater insight into the current prospects for development in the international economy by outlining recent trends in production and trade in major regions of the Third World. Every Third World region has evolved through a sequence of export roles that tie developing nations to the world economy. These roles confer distinctive advantages and drawbacks on the nations pursuing them. A global commodity chains perspective is introduced to conceptualize these shifts within an integrated analytical framework. A distinction is drawn between producer-driven and buyer-driven commodity chains, which represent alternative modes of organizing international industries. Several mechanisms that have been used to sustain export-oriented industrialization in the Third World, such as "triangle manufacturing" and "industrial upgrading," are identified. Finally, contemporary transformations

in the Third World are discussed in terms of their implications for theories of internationalization and economic development issues.

Phases in the Evolution of the International Economy

The internationalization of economic activities in the early modern world began with the rise of a trade-based division of labor in Europe, premised on major changes such as the freeing of labor from feudal restrictions, the accumulation of merchant and financial capital, and the growth of external markets. The origins of capitalism as a system of production for profit via market exchange, which followed the emergence of an international economy based on long-distance trade, covers a period stretching from the sixteenth century to the Industrial Revolution of the eighteenth and early nineteenth centuries[1] (Wallerstein 1974; Anderson 1974; Bendix 1978). According to classical economic thinkers like Adam Smith in *The Wealth of Nations* ([1776] 1976), the development of a society's wealth is a function of the degree of its division of labor, since the specialization of economic tasks (initially achieved through the separation of agriculture and manufacturing, and their allocation to country and town, respectively) increases the productivity of labor, which in turn enhances wealth. Once trade routes and other mechanisms of exchange were historically established, the division of labor was set in motion; the division of labor, in another of Smith's famous principles, was limited only by the extent of the market (namely, the size of area and population linked up via trade relations). Thus, the greatest wealth presumably could be generated by the expansion of markets through international trade.

The world economy entered the phase of competitive capitalism during the nineteenth century, in which the expansion of production and trade was embedded in an increasingly well-integrated market economy. The policy of laissez-faire prevailed, although a definite state presence was needed to provide a legal and institutional framework that protected the political interests of capitalists and ensured the free movement of labor and other resources (Polanyi 1944). However, the nineteenth-century international economy was molded by coercive mechanisms as well. The world economy revolved around Great Britain between the 1840s and 1870s, which used its military (especially maritime) power to maintain British access to world markets. This era, which later was described as that of "the imperialism of free trade," saw the British dominate world trade with their exports of manufactured goods in exchange for imports of primary products from peripheral producers. The British ruled the international monetary system as well, which was dependent on Britain's access to Indian gold and protected markets in the Empire. Britain's colonial control over India also consolidated Lancashire's dominance of cotton textile manufacture through the hindrance and occasional destruction of indigenous Indian textile manufacturers (Hobsbawm 1968).

The strength of the core capitalist powers was intensified during the phase of imperialism, which covered the turbulent period between the world economic crisis of 1873–96 and the Second World War. The growing concentration of industrial and financial capital was linked to the political-military might of the nation-states that held economic power, and resulted in the colonial partition of much of the nonindustrialized world (Fieldhouse 1967). The shift from economic competition to political-military confrontation culminated in the First World War, which was followed by the precarious restoration of the imperial order in the 1920s, the economic breakdown of the Great Depression of the 1930s, and the second great political collapse in the Second World War.

Although Marxists and liberals alike were skeptical (albeit for different reasons) about the viability of the international economy following the Second World War, the postwar decades saw a movement to a new phase, defined by some as "monopoly capitalism" (Baran and Sweezy 1966) or "transnational capitalism" (Sunkel 1973) and characterized by the political, economic, and military hegemony of the United States. The main new features in the internationalization process of this period were the renewed growth of world trade within nearly all economic sectors (including the private service sectors) and the rise of transnational corporations (TNCs) distinguished by direct investments abroad in a wide range of industries (Vernon 1971; 1977; Barnet and Müller 1974). World commerce more than quintupled between 1950 and 1971, with average annual growth rates of 7 percent and 10 percent in the 1950s and 1960s, respectively (Bergsten 1973).

A variety of political and technological factors facilitated the international expansion of trade and investment in the postwar era. These included: the reconstruction of the international monetary system through the Bretton Woods agreements which led to the establishment of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD, or the World Bank); the liberalization of trade through the lowering of tariffs, the reduction of import controls, and the gradual return to convertible currencies; the development of regional trading areas, such as the European Economic Community, which was launched in 1957; major advances in transportation and communications technologies that facilitated the global spread of enterprise; and new production technologies that permitted significant economies of scale.[2]

Beginning in the 1970s, however, this remarkable combination of economic and political arrangements identified with the Pax Americana began to show signs of weakening. The international monetary system became much more unstable after the United States decided to abandon the gold standard in 1971 (Block 1977). Protectionism increased as the advanced nations tried to cope with the rapid growth of manufactured exports from the newly industrialized countries (Yoffie 1983). Although world trade and foreign direct investments continued to grow at high rates, developed countries were rocked in the 1970s by two oil crises and the domestic polarizing effects of "stagflation." Drawing on analogies between the position of Great Britain in the late nineteenth century and that of the United States in recent decades, some authors subscribed to the "declining hegemony" thesis whereby the United States had jeopardized its national interests by overinvesting abroad and sharing its technological expertise with the rest of the world at too low a price, thus undermining its own industrial strength (Gilpin 1975; Krasner 1978; 1985).

By the 1980s and 1990s, the international economy had entered a new phase of "global capitalism" (Ross and Trachte 1990) in which many of the economic, political, social, and technological components of the previous phases of development were radically redefined. In the 1950s and 1960s, the world economy was an aggregation of reasonably distinct national economies; production tended to be organized within national boundaries. Since the 1960s, however, the world economy has undergone a fundamental shift toward an integrated and coordinated global division of labor in production and trade (Hobsbawm 1979). The nation-state is no longer the key unit of analysis in the industrialization process. Today the most dynamic industries are organized in production systems that are transnational in scope (Dicken 1992; Sayer and Walker 1992; Gereffi and Korzeniewicz 1994). This is one of the distinguishing features of global capitalism, in contrast to the earlier eras of competitive and monopoly capitalism when production systems covered local and national markets, respectively. The fragmentation and geographical relocation of many manufacturing processes now takes place on a global scale in ways that slice through national boundaries. As almost every factor of production—money, technology, information, and goods—moves effortlessly across frontiers, corporations, capital, products, and technology are becoming increasingly disconnected from their home nations as investors, manufacturers, traders, and buyers simultaneously scour the globe for profitable opportunities (Porter 1990; Reich 1991).

A new global division of labor has changed the pattern of geographical specialization between countries. The classic core-periphery relationship in which the developing nations supplied primary commodities to the industrialized countries in exchange for manufactured goods is outdated. Since the 1950s, the gap between developed and developing countries has been narrowing in terms of industrialization. Industry as a share of gross domestic product (GDP) has increased substantially in the vast majority of Third World nations, both in absolute terms and relative to that of core countries (Harris 1987). By the late 1970s, the newly industrialized countries (NICs) as a whole not only caught up with but overtook the core countries in their degree of industrialization (Arrighi and Drangel 1986, pp. 54–55).

The literature on "the new international division of labor" traced the surge of manufactured exports from the Third World since the 1960s to the establishment of a global manufacturing system based on labor-intensive export platforms established by TNCs in low-wage areas (Fröbel, Heinrichs, and Kreye 1981). However, these discussions placed an undue emphasis on labor-intensive, assembly-oriented export production in the NICs, which in retrospect characterized only the initial phase of their export efforts. The NICs have rapidly diversified from traditional labor-intensive exports, such as textiles and clothing, to more complex, technologically sophisticated ex-

ports, such as machinery, transport equipment, and computers (Gereffi 1989a). Furthermore, manufacturing technologies are undergoing substantial and far-reaching change as the emphasis on large-scale, mass-production, assembly-line techniques is shifting to a more flexible production process utilizing new microelectronic technologies (Hoffman 1985; Hoffman and Kaplinsky 1988). This revolution in information technology underlies the profound economic and social reorganization that is taking place among major cities, countries, and regional blocs in the global economy (Castells 1989; Sassen 1991; Portes and Stepick 1993).

The integration of the international economy under American leadership has become more problematic in the post–Cold War era. As the East-West polarity and political-military alliances have been eroded with the dissolution of the former Soviet bloc, economic globalization has intensified intercapitalist competition and paved the way for the emergence of larger and more powerful political and economic entities: the European Community; the North American Free Trade Area made up of the United States, Canada, and Mexico; Japan's sweeping production and trading networks throughout East and Southeast Asia; and even incipient agreements for the integration of the Southern Cone in South America. While these new regional arrangements may contribute to heightened efficiencies for capital in the global economy, they are fragmenting the old Third World along several main fault lines: those countries (like the East Asian NICs, the oil-producing nations, or the drug-producing countries) that have found productive niches in the international economy; some countries of continental size (such as India, Brazil, China, and Indonesia) that have the necessary internal resources to mediate their partial or uneven links to the global economy; and a huge Fourth World characterized by crushing poverty, hunger, and despair (Cardoso 1993; Castells 1993). These fundamantal disparities in development around the globe are one of the major challenges that loom ahead as we approach the twenty-first century.[3]

Theoretical Perspectives and Controversies

Theories of economic internationalization span a wide range of time periods and substantive concerns. In this review, we make no pretense of being fully comprehensive—an impossible task for a field this broad. Instead, we will look at a limited number of theoretical perspectives in varying degrees of detail: theories of imperialism; development economics; dependency theory; world-systems theory; and the development strategies controversy. Our intent is to highlight some of the debates within as well as between these approaches. Although they are formulated at different levels of generality, together these theories help to identify some of the most important lines of inquiry, past and present, that link the international economy and economic development.

Theories of Imperialism

There are multiple theories of imperialism, just as there are many kinds of empires. Our focus will be on theories of capitalist imperialism, which can be divided into classical and modern variants.[4] The classical theorists, such as Hobson, Hilferding, Luxemburg, and Lenin, set out to explain the sharp rise in European colonialization between about 1870 and 1914, when much of the nonindustrialized world was partitioned among a handful of empire-owners in Europe, as well as Japan and the United States. The general consensus among these nineteenth-century economists was that colonialism was a direct result of Europe's need to invest surplus capital overseas because of the declining tendency of the rate of profit in industrialized societies (Fieldhouse 1967). The modern theorists, who include figures like Baran, Magdoff, Sweezy, Emmanuel, and Amin, focused on the economic imperialism of the mid-twentieth century, to wit the postcolonial situations of exploitation and unequal exchange between advanced economies and the newly emergent Third World. Both the classical and the modern theories of imperialism center their attention on the advanced economies, and pay little heed to the internal characteristics of peripheral areas affected by the actions of advanced countries. There are significant differences of interpretation, though, within these intellectual camps.

Virtually all of the classical theorists of imperialism agreed with Marx's assertion that the universalistic urges of capitalist society to encompass the entire world would have positive effects for underdeveloped regions because there would be an inflow of capital leading to higher levels of development.[5] For Marx, European colonial expansion was a brutal but necessary step toward the

world revolution that ultimately would bring socialism.[6] Subsequent theorists diverged, though, concerning the mechanisms that fueled imperialism. Hobson ([1902] 1938), who provided the best known non-Marxist exposition of capitalist imperialism, argued that overproduction and underconsumption were the key factors that forced the European powers to acquire colonies. The liberal implication of Hobson's position was that if consumption in capitalist countries such as England could be well distributed, then imperialism would not be necessary.

The Marxist theory of capitalist imperialism, systematically articulated first by Hilferding and more fully by Lenin, rejected the possibility of Hobson's conditional clause ever being true and reasserted that capitalism inevitably leads to imperialism.[7] Hilferding ([1910] 1981), in his book *Finance Capital*, attributed the rapid overseas colonial expansion of the late nineteenth and early twentieth centuries to the rise of industrial monopolies known as cartels. In order to obtain profits, cartels needed to export great amounts of capital overseas and thus they became dependent on big banking houses for the enormous credits required to finance production for an entire industrial sector. In Hilferding's view, then, capitalist imperialism developed when finance capital (i.e., the merging of bank capital with industrial capital) allowed cartels to greatly expand their home economic areas overseas in their incessant search for extra profits. Lenin ([1917] 1939) similarly argued that imperialism was the monopoly stage of capitalism, but he stressed the political violence that accompanied imperialism. Written on the eve of the First World War, Lenin's book *Imperialism, the Highest Stage of Capitalism* sought to prove that this struggle for the redivision of the world among the imperialist powers would so weaken capitalism in Russia and other European countries that the proletariat could stage successful revolutions.

In contrast to the classical theorists of capitalist imperialism, the modern theorists claim that imperialism, far from stimulating development, is the primary cause of underdevelopment in the Third World.[8] The agents through which advanced capitalist countries are seen as siphoning money and resources out of the Third World include: monopoly capital (Baran 1957; Baran and Sweezy 1966), rapacious and warmongering states (Magdoff 1969), transnational corporations (Amin [1970] 1974; Barnet and Müller 1974), and the dynamics of unequal exchange (Emmanuel 1972). One explanation for the different conclusions drawn by the classical and modern perspectives on imperialism may be timing (Stallings, 1982, p. 196). In the late nineteenth and early twentieth centuries, there was a net inflow of capital going to peripheral areas that could promote development; by the second half of the twentieth century, the profits extracted from the Third World may have exceeded the then slower capital inflows. Furthermore, the types of investments made in the Third World became far more complex in the postwar era and a simple positive (or negative) assessment of their impact was harder to sustain.

A fundamental shortcoming in many theories of imperialism, however, is their tendency to adopt a Eurocentric and unilateral perspective that emphasizes conditions in the capital-exporting, advanced industrial countries and ignores the concrete situation of the developing world. In the words of a contemporary Latin American observer: "Lenin did not study the effects of the export of capital on the economies of the underdeveloped countries. If he had concerned himself with this matter, he would have seen that this capital was being invested in the modernization of the old exporting colonial structure and, therefore, was becoming allied to the elements that were maintaining the backwardness of those countries" (Dos Santos 1969, p. 176). It was the perceived need to gain a deeper understanding of the economic, social, and political situation of underdeveloped areas that gave rise to two new paradigms about the impact of the international economy on the Third World: development economics and dependency theory. We will consider each of these in turn.

Development Economics

The breakup of colonial empires in Asia and Africa during the Second World War and shortly thereafter unleashed a drive for development that responded to the pent-up nationalist demands of the interwar period. Centuries of foreign domination in areas that had been considered "rude and barbarous" in the eighteenth century, "backward" in the nineteenth century, and "underdeveloped" in the twentieth century were reversed. Now known by the updated euphemisms of "less developed countries" or "developing economies," these newly liberated areas soon con-

fronted the question of how development was to be achieved. In this caldron of high expectations and limited experience, development economics was born: "Development economics did not arise as a formal theoretical discipline, but was fashioned as a practical subject in response to the needs of policymakers to advise governments on what could and should be done to allow their countries to emerge from chronic poverty"[9] (Meier 1984, p. 4).

Economists were called upon for policy advice on development problems, but where were their policy proposals to come from? The Great Depression of the 1930s had generated a climate of export pessimism for primary commodity producers due to the decline in export prices, the low price elasticities and income elasticities of demand for primary products, and unstable foreign exchange earnings. Many countries, especially in Latin America, had turned to import substitution during the Depression and the Second World War (Hirschman 1968). Keynesian analysis also exerted a strong influence on development economics. By assigning a larger role to the public sector than did orthodox economics, Keynes paved the way for an alternative approach to economic problems in poorer countries that included attributes of the modern welfare state such as full employment, social security, and the political and social responsibility of government. Finally, experience with wartime planning in the industrialized countries provided development economists with a sense of optimism that planning could be a mechanism to overcome deficiencies of the market price system and a means of enlisting public support to achieve national objectives.

In the postwar era, the IMF, the World Bank, and the General Agreement on Tariffs and Trade (GATT)[10] together constituted the outlines of an international public sector intended to promote the multiple objectives of domestic full employment, freer and expanding world trade, and stable exchange rates. But did these postwar institutions have any direct benefits for the newly developing countries, or were they intended merely to prevent a recurrence of the Great Depression of the 1930s? In response to such concerns, the United Nations created regional commissions that would assume an active role in examining development problems. The most prominent of these was the Economic Commission for Latin America (ECLA), established in Santiago, Chile, in 1948. Raúl Prebisch became the executive secretary of ECLA from 1948 to 1962, a position that allowed the Argentine economist to exert considerable influence over development policy in Latin America and beyond.

Around 1950, Prebisch and Hans Singer simultaneously (and independently) formulated the thesis that there was a secular tendency toward adverse terms of trade for countries that exported primary products and imported manufactures (Economic Commission for Latin America 1950; Singer 1950; 1984; Love 1980). This argument was put forward as a theoretical justification for a sustained policy of industrialization in Latin America (where it already was being followed by the large countries) and elsewhere in the developing world. Prebisch couched his analysis in terms of the "center-periphery" system of international economic relations, introducing terminology that later would be used extensively by both dependency theory and world-systems theory.[11] Of central importance to Prebisch's model was the idea that import substitution, stimulated by a moderate and selective protection policy, could counteract the tendency toward the deterioration of the terms of trade (Prebisch 1984, p. 179; also see Prebisch 1959; 1964).[12]

Import-substituting industrialization (ISI) became a leitmotif that permeated development economics throughout the 1950s and 1960s. One can distinguish three different ISI strategies that emerged in this period.[13]

(1) The planning-oriented ISI strategy implied an inward-looking form of balanced growth that would be coordinated within a planning framework. With some authors, there was a call for implicit planning through protectionism (Nurske 1959); in others, an explicit desire for the state to establish inducements for entrepreneurs to invest (Rosenstein-Rodan 1943). In the more extreme closed-economy models that were proposed for the USSR (Fel'dman 1957) and India (Mahalanobis 1953), the famous Harrod-Domar growth theory,[14] which purported to show how a country could grow via its own capital accumulation, was modified in such a way as to justify investment in heavy industry. Planners were urged to build up consistent or "optimal" plans with investment and output targets for different activities, often supported by licensing mechanisms.

(2) There was a market-oriented ISI strategy as well. This argued that if one must have protection, then it should be done by across-the-board tariffs (without the battery of instruments needed

for sectoral interventions) and by planned and regulated investments (Haberler 1959).

(3) A third variant of import substitution, and the one followed throughout most of Latin America, is what Bhagwati calls Albert Hirschman's strategy of "slash [imports] and grow" or "anarchic" ISI (see Hirschman 1968). Like most of the other development economists of his generation, Hirschman was profoundly influenced by the mass unemployment and political convulsions of the 1930s. Militantly opposed to economic reductionism, he thought the single-minded emphasis of his neoclassical brethren on orthodox policy prescriptions—such as stopping inflation or getting the exchange rate right—to solve all manner of development problems was often politically, socially, and economically counterproductive in the long run.[15] In marked contrast to the conventional arguments in favor of "balanced" as well as "big push" industrialization efforts, Hirschman ([1958] 1978) adopted the controversial position that developing countries could turn shortages, bottlenecks and other "unbalanced growth" sequences to their advantage. His method was to search for "hidden rationalities" that already were at work in developing countries, to tap their hidden reserves of labor, savings, entrepreneurship, and other resources, and to give priority to industrial investments and policies that had the potential for strong linkage effects (Hirschman 1977).

Like Gerschenkron (1962), whose work on nineteenth-century Europe showed that latecomers to industrialization such as Germany and Russia differed in fundamental respects from Britain, Hirschman wanted to demonstrate that industrialization in the less-developed areas required novel policies, sequences, and ideologies. There can, in short, be more than one path to development. This assertion stands in striking opposition to the well-known thesis of Walt W. Rostow, whose book *The Stages of Economic Growth* ([1960] 1971) postulated that all countries pass through "five stages" of economic development, with identical content irrespective of when these nations started out on the road to industrialization. Although this popularized version of his typology does not do justice to Rostow's erudition in comparative economic history (see Rostow 1978), his writings on national economic growth were self-consciously proclaimed to be part of a larger theory of modernization (Rostow [1960] 1971, p. 174), which has been widely criticized for its Eurocentric bias when analyzing the developing nations.[16]

Standard trade theory, based on the Heckscher-Ohlin principle that developing countries will maximize their national product if they concentrate on natural resource–intensive and labor-intensive activities, gave way in development economics to the ISI premise that a country could acquire a comparative advantage in the goods it imports. However, the problem of persistent domestic inequality in the Third World was not diminished by ISI. Nobel laureate Gunnar Myrdal of Sweden was one of the few economists who saw greater equality and higher consumption levels as a precondition for more substantial growth in underdeveloped nations (Myrdal 1984). Myrdal invoked the principle of "circular and cumulative causation," which permeated his work from *An American Dilemma* (1944), to *Economic Theory and the Underdeveloped Regions* ([1957] 1965), and thence to *Asian Drama* (1968), in seeking to understand the reason for constant and increasing income disparities within nations. However, Myrdal also used the concepts of "backwash effect" (the factors augmenting disparities) and "spread effect" (the factors that led prosperity to flow from the rich to the poor regions) to argue that spread effects were weaker than backwash effects in the international economy because of the instability of the domestic institutional framework in underdeveloped countries. Myrdal's (1984) proposed solution was to combine radical institutional reforms (including combating the corruption that pervaded "soft states") with domestic industrialization policies in order to create more of a "welfare world."

Dependency Theory

In the 1960s, dependency theory emerged in response to the perceived failure of national development through the ISI strategy recommended by ECLA, and at the same time it offered an alternative to the ahistorical and apolitical assumptions of modernization approaches. Dependency theory was rooted in a historical-structural analysis that focused on the effects of the international political economy on peripheral capitalism. Instead of assuming that increased contact between core and periphery would foster more rapid development, as both modernization theorists and classical Marxists had, the dependency school highlighted the exploitative poten-

tial of these relationships for poor countries. Evidence from a number of Latin American and African cases seemed to indicate that links to the center were the source of many of the Third World's problems, rather than a solution.[17]

Dependency theory modified its initial claims with a new wave of case studies in the 1970s and 1980s that diverged sharply from the earlier "stagnationist" views of writers like Andre Gunder Frank (1969), Theotonio Dos Santos (1972), and Samir Amin ([1973] 1976) that claimed dependency could only lead to underdevelopment and socialist revolution.[18] The notion of "dependent development" stressed the fact that structural dependency on foreign capital and external markets constrains and distorts, but is not incompatible with, capitalist economic development in the more advanced countries of the Third World, such as Brazil (Evans 1979a), Chile (Moran 1974), Nigeria (Biersteker 1978; 1987), Taiwan (Gold 1981), South Korea (Lim 1985), India (Encarnation 1989), and Kenya (Bradshaw 1988).

A related and novel research agenda was pursued by dependency studies that focused on industries rather than countries. Typically, this approach led to a bargaining perspective that looked at the interaction between the state, TNCs, and national business elites in shaping local development options in relatively dynamic manufacturing sectors, such as pharmaceuticals (Gereffi 1983), automobiles (Bennett and Sharpe 1985), computers (Grieco 1984), and the electrical, tractor, tire, and food processing industries (Newfarmer 1985). This bargaining framework sparked a vigorous debate about the limits of dependency analysis and the possibilities for dependency reversal (Becker 1983; Encarnation 1989).

A final variant of empirical dependency research are the numerous efforts to "test dependency theory" by means of quantitative, cross-national analysis. Generally, these studies relate aggregate indicators of dependency (operationalized as foreign investment, foreign aid, and/or foreign trade) to separate indicators of development or national welfare (usually measured by the rate of economic growth per capita and/or the degree of inequality within countries). In all cases, the various measures of dependency are the independent variables, and development or national welfare is the dependent variable (see, for example, Chase-Dunn 1975; Rubinson 1976; 1977; Jackman 1982; Bornschier, Chase-Dunn, and Rubinson 1978; and Bornschier and Chase-Dunn 1985). In a summary of sixteen studies of this type, Bornschier et al. (1978) concluded that TNC investment and foreign aid have the long-term effect of decreasing the rate of economic growth and of increasing inequality within countries, as dependency theory would predict. This finding, which holds independently of geographical area, is qualified by the fact that *flows* of direct foreign investment and foreign aid have had a short-term effect of increasing the economic growth rate of countries, whereas *stocks* of foreign capital have had negative cumulative effects on growth. These studies, while methodologically quite sophisticated, have been criticized by dependency theorists (Cardoso 1977) and others for neglecting many of the contextual and holistic features of concrete situations of dependency, for conceptualizing development in too narrow or economistic a manner, and for ignoring the role of the state in the development process.

Overall, the theoretical scope of dependency theory has been limited by its close association with the development of the Latin American NICs. The dependent development literature looked at the problems of Third World development with an eye toward TNC domination and a heavy reliance on foreign bank loans, situations that were common in Latin America from the 1960s to the 1980s (Evans 1981; Stallings 1987). Scholars who worked on the East Asian NICs, however, claimed that dependency theory had little, if any, relevance to their part of the world, where dynamic economic growth and social progress have occurred without a number of the drawbacks suggested by the Latin American experience (Amsden 1979; Barrett and Whyte 1982; Berger 1986). Instead, the political elites and domestic institutions in this region have managed to use these external economic resources productively and selectively to promote national development.

The cross-regional comparison of development trajectories in the Third World emphasizes the need to broaden our conception of dependent development (Gereffi and Wyman 1990; Haggard 1990; Deyo 1987). A useful concept in this regard is transnational economic linkage (TNEL). There are four kinds of TNELs that affect developing countries: foreign aid, foreign trade, foreign direct investment, and foreign loans. Different Third World nations have distinct configurations of TNELs, leading to varied patterns of

development outcomes (Gereffi 1989b). In Latin America and sub-Saharan Africa, for example, many countries have relied heavily on foreign aid, TNC investments, foreign debt, and export trade at different stages in their development, and these transnational linkages were shown to hinder or distort national development in various ways (Moran 1974, Biersteker 1978; Evans 1979a; Gereffi 1983; Newfarmer 1985). In East Asia, on the other hand, the NICs enjoyed spectacular growth despite their dependency on foreign aid (in the 1950s) and foreign trade (since the 1960s); and the Indian state has had considerable success in bargaining with TNCs in the computer industry (Grieco 1984; Encarnation 1989). These differences in outcome may be due in part to variations in the timing and the sequencing of a nation's external relationships. However, dependency theory also needs to specify the institutional conditions that have led to successful "dependency management" in the cases of East Asia and India if it hopes to attain broader generalizability (Gereffi 1989b).

World-Systems Theory

World-systems theory, which drew heavily on earlier Marxist ideas of imperialism and capitalist exploitation, has been closely associated with the work of Immanuel Wallerstein[19] (1974; 1979; 1980; 1989). This approach establishes a hierarchy made up of core, semiperipheral, and peripheral nations in which upward or downward mobility is conditioned by the resources and obstacles that characterize the international system. A country's mode of incorporation in the capitalist world economy thus is the key variable that determines national development outcomes. Leaving one structural position implies taking on a new role in the international division of labor, rather than escaping from the system. Thus the possibilities for autonomous paths of development are quite limited.

The semiperiphery is one of the main categories in world-systems theory. It identifies an intermediate stratum between the core and peripheral zones that promotes the stability and legitimacy of the three-tiered world economy. The countries within the semiperipheral zone, such as South Korea and Taiwan in East Asia, Mexico and Brazil in Latin America, India in South Asia, and Nigeria and South Africa in Africa, supposedly have the capacity to resist peripheralization but not the capability to move into the upper tier (Wallerstein 1974; Arrighi and Drangel 1986). However, the semiperipheral zone encompasses an extremely diverse range of countries. In order to understand the actual circumstances and development strategies of semiperipheral nations in the world economy today, we need to disaggregate their roles and focus on the specific features of the NICs in different geographical regions.

World-systems theory offers the possibility of a truly comprehensive sociology of development that takes a long-run historical view of cycles of change in the international economy and that cuts across all world regions. Nonetheless, the theory is limited in its ability to analyze concrete development trajectories of countries and regions that are similarly situated, but respond differently to external economic challenges.[20] Current research, instead of merely positing the general categories of core, semiperipheral, and peripheral nations, seeks to empirically identify the international divisions of labor that structure global industries (Henderson 1989; Gereffi and Korzeniewicz 1990; Doner 1991). These studies show that the world economy is indeed hierarchically organized, as world-systems theory postulates, but that the roles played by nations that are differently situated in the world economy vary according to both the technological features and the product cycles of the industries in question, and the industrial strategies followed by countries that seek to move toward higher-value-added activities in global commodity chains (Gereffi and Korzeniewicz 1994). This sectoral or commodity chains approach thus links the macrolevel issues related to the structure of the world-economy with the mesolevel characteristics of national development strategies, and the microlevel emphasis on the social and political embeddedness of domestic and international contracting networks.

World-systems theory also helps us understand the recent dilemmas confronted by developing countries that try to alter their relationship to the international economy. The socialist societies of East Asia, Eastern Europe, Latin America, and Africa highlight the difficulties in the post–Cold War era of adopting a new role in the capitalist world-economy (Nee and Stark 1989; Sklair 1991). Conversely, sub-Saharan Africa shows that nonincorporation or marginalization in the world-system may bring the severest problems of all (Callaghy 1984; Iliffe 1987; Mytelka 1989).

With corrupt states, a weak national bourgeoisie, small domestic markets, low levels of foreign investment, and unstable commodity exports, most African nations have few resources from which to fashion viable development strategies.

National Development Strategies

Development strategies can be defined as "sets of government policies that shape a country's relationship to the global economy and that affect the domestic allocation of resources among industries and major social groups" (Gereffi and Wyman 1990, p. 23). This notion of strategies links global with local concerns: policies and production structures that tie a country to the international economy, and decisions about domestic growth and equity. A wide variety of policies actually may be used to establish a particular pattern of inward- or outward-oriented production. The development experience of the Latin American and East Asian NICs is useful in showing how the timing, sequencing, and content of industrialization trajectories vary (Gereffi and Wyman 1990).

Development patterns are historically and structurally situated. They have three main dimensions: (1) the leading industries that are most prominent in each phase of a country's economic development; (2) their degree of inward or outward orientation (i.e., whether production is destined for the domestic market or export); and (3) the major economic agents relied on to implement and sustain development. In terms of these categories, one can identify five main phases of industrial development for the NICs in Latin America (Mexico and Brazil) and East Asia (Taiwan and South Korea). Two of these phases are inward-looking: primary ISI and secondary ISI. The other three are outward-looking: a commodity export phase, and primary and secondary export-oriented industrialization (EOI). The subtypes within the inward and outward approaches are distinguished by the kinds of products involved. In the ***commodity export phase***, the output is usually unrefined or semiprocessed raw materials. In ***primary ISI*** and ***primary EOI***, firms are making basic consumer goods (e.g., textiles, clothing, footwear, food) for the domestic and export markets, respectively. In ***secondary ISI*** and ***secondary EOI***, there is a shift to consumer durables (e.g., automobiles), intermediate goods (e.g., petrochemicals and steel), and capital goods (e.g., heavy machinery). The principal stages of industrial development in the Latin American and East Asian NICs are identified in table 1.

Several conclusions can be drawn from the strategies and patterns in these two regions (see Gereffi 1990). First, the contrast often made between Latin America and East Asia as representing inward- and outward-oriented development models, respectively, is oversimplified. A historical perspective shows us that each of these regional pairs of NICs has pursued both inward- and outward-oriented approaches. Second, the initial phases of industrialization—commodity exports and primary ISI—were common to all four of these NICs. The subsequent divergence, with Mexico and Brazil pursuing a strategy of ISI deepening while Taiwan and South Korea shifted to primary EOI, stems from the way in which each country responded to external as well as domestic problems, such as balance of payments pressures, rapid inflation, and the interests of foreign investors in the economy. Third, the duration and timing of these development patterns vary by region. Primary ISI, for example, began earlier, lasted longer, and was more populist in Latin America than in East Asia. Fourth, the development strategies of the Latin American and East Asian NICs showed signs of converging in the 1970s and 1980s (Gereffi 1992, pp. 240–42), which suggests the need for balance between exports and domestic industrial initiatives.

Once the economic trends in the East Asian NICs became clearly visible, prominent neoclassical economists began to offer unambiguous policy prescriptions regarding the development strategies in Third World nations. They argued that the outward-oriented development strategies being followed in East Asia led to better economic performance in terms of exports, economic growth, and employment than inward-oriented development strategies of the sort pursued in Latin America (Balassa 1981, pp. 1–26; Balassa, Bueno, Kuczynski, and Simonsen 1986; and World Bank 1987, chap. 5). The implication was clear: East Asian NICs should serve as a model to be emulated by the rest of the developing world. Although there are some lessons of an institutional as well as a policy nature that can be derived from the East Asian experience, the attempt to repeat history in other parts of the world with markedly different historical, cultural, and political circumstances is frequently counterproductive.

National development strategies play an important role in forging new production relationships

TABLE 1. Development Patterns in Latin America and East Asia

Development Strategies	*Commodity Exports*	*Primary ISI*	*Secondary ISI*	*Diversified Exports*
	Mexico and Brazil			
Dates	*Mexico and Brazil*: 1880–1930	*Mexico and Brazil*: 1930–55	*Mexico and Brazil*: 1955–82	*Mexico and Brazil*: 1983–present
Main industries	*Mexico*: Precious metals (silver, gold), minerals (copper, lead, zinc), oil *Brazil*: Coffee, rubber, cocoa, cotton	*Mexico and Brazil*: Textiles, food, cement, iron and steel, paper, chemicals, machinery (Brazil)	*Mexico and Brazil*: Automobiles, electrical and nonelectrical machinery, petrochemicals, pharmaceuticals	*Mexico*: Oil, silver, apparel, transport equipment, non-electrical machinery *Brazil*: Iron ore and steel, soybeans, apparel, footwear, transport equipment, non-electrical machinery, petrochemicals, plastic materials
Major economic agents	*Mexico*: Foreign investors *Brazil*: National private firms	*Mexico and Brazil*: National private firms	*Mexico and Brazil*: State-owned enterprises, transnational corporations, transnational banks (after 1973), and national private firms	*Mexico and Brazil*: State-owned enterprises, transnational corporations, and national private firms
Orientation of economy	External markets	Internal market	Internal market and external market (Mexico's oil exports since 1975)	Internal and external markets
	Taiwan and South Korea			
Development Strategies	*Commodity Exports*	*Primary ISI*	*Primary EOI*	*Secondary ISI & Secondary EOI*
Dates	*Taiwan*: 1895–1945 *Korea*: 1910–45	*Taiwan*: 1950–59 *S. Korea*: 1953–60	*Taiwan*: 1960–72 *S. Korea*: 1961–72	Secondary ISI: 1973–79 (both) Secondary EOI: 1980–present (both)
Main industries	*Taiwan*: Sugar, rice *Korea*: Rice, beans	*Taiwan and S. Korea*: Food, beverages, tobacco, textiles, clothing, footwear, cement, light manufactures (wood, leather, rubber, and paper products)	*Taiwan and S. Korea*: Textiles and apparel, electronics, plywood, plastics (Taiwan), wigs (S. Korea), intermediate goods (chemicals, petroleum, paper, and steel products)	*Taiwan*: Steel, petrochemicals, computers, telecommunications, textile and apparel *S. Korea*: Automobiles, shipbuilding, steel and metal products, petrochemicals, textiles and apparel, electronic items
Major economic agents	*Taiwan and Korea*: Local producers (colonial rule by Japan)	*Taiwan and S. Korea*: National private firms	*Taiwan and S. Korea*: National private firms, transnational corporations	*Taiwan and S. Korea*: National private firms, transnational corporations, state-owned enterprises (Taiwan), transnational banks (S. Korea)
Orientation of economy	External markets	Internal market	External markets	Internal and external markets

Source: Gereffi (1990, pp. 238–39). ISI = Import-Substituting Industrialization. EOI = Export-Oriented Industrialization.

in the global manufacturing system. Today it is abundantly clear that most economies have opted for an expansion of manufactured or nontraditional exports to earn needed foreign exchange and raise local standards of living, with the East Asian NICs best exemplifying the gains from this path of development. However, it is the mix of both inward- and outward-oriented strategies that helps us understand how industrial diversification has led to enhanced export flexibility and competitiveness in both the Latin American and the East Asian NICs in the 1980s and 1990s.

The Emergence of a Global Manufacturing System

Contemporary industrialization is the result of an integrated system of global trade and production. Open international trade has encouraged nations to specialize in different branches of manufacturing and even in different stages of production within a specific industry. This process, fueled by the explosion of new products and new technologies since the Second World War, has led to the emergence of a "global manufacturing system" in which production capacity is dispersed to an unprecedented number of developing as well as industrialized countries (Harris 1987). What is novel about today's global manufacturing system is not the spread of economic activities across national boundaries per se, but rather the fact that international production and trade are globally organized by core corporations that represent both industrial and commercial capital.

Three specific trends in the international economy serve to illustrate the nature of the contemporary global manufacturing system in greater detail: (1) the spread of diversified industrialization to large segments of the Third World; (2) the shift toward export-oriented development strategies in peripheral nations, with an emphasis on manufactured exports; and (3) high levels of product specialization in the export profiles of most Third World countries, along with continual industrial upgrading by established exporters among the NICs. Although these processes of change have incorporated most nations into the global manufacturing system, their roles and resources are quite different. Each Third World region is characterized by an internal division of labor involving countries at relatively different levels of development and with unique patterns of cooperation and competition to exploit this regional potential.

Worldwide Industrialization

The most "developed" nations in the world today are no longer the most industrial ones. As core economies shift predominantly toward services, vigorous industrialization has become the hallmark of the periphery, or at least of certain parts of it. This can be seen by taking a closer look at the major Third World regions. East Asia, Southeast Asia, Latin America, South Asia, and sub-Saharan Africa have sharply contrasting development profiles (see Gereffi and Fonda 1992). Between 1965–80 and 1980–90, East and Southeast Asia increased their GDP growth rates from an annual average of 7.3 percent to 7.8 percent, while South Asia also accelerated from an annual average growth rate of 3.6 percent in the first period to 5.2 percent in the latter. The OECD countries, sub-Saharan Africa, and Latin America and the Caribbean, on the other hand, all registered substantial declines in the growth of their economies during the past decade (World Bank 1992, pp. 220–21).

Industry outstripped agriculture as a source of economic growth in all regions of the Third World. From 1965 to 1990, industry's share of GDP grew by 13 percentage points in East and Southeast Asia, by 10 percent in sub-Saharan Africa, 5 percent in South Asia, and 3 percent in Latin America. Agriculture's share of regional GDP, on the other hand, fell by 16 percentage points in East and Southeast Asia, 11 percent in South Asia, 8 percent in sub-Saharan Africa, and 6 percent in Latin America (World Bank 1992, pp. 222–23).

Manufacturing has been the cornerstone of development in East and Southeast Asia, as well as in Latin America. In 1990, 34 percent of the GDP of East and Southeast Asia was in the manufacturing sector, compared to 26 percent for Latin America, 17 percent for South Asia, and only 11 percent for sub-Saharan Africa. The manufacturing sector's share of GDP in some developing nations, such as China (38 percent), Taiwan (34 percent), and South Korea (31 percent), was even higher than Japan's manufacturing/GDP ratio of 29 percent. These differences in performance are corroborated over time as well. The manufacturing sector exhibited much greater dy-

namism in East and Southeast Asia than anywhere else in the Third World (World Bank 1992, pp. 222–23).

Diversified, Export-oriented Industrialization

World trade expanded nearly thirtyfold in the three decades since 1960. Manufactured goods as a percentage of total world exports increased from 55 percent in 1980 to 75 percent in 1990. Furthermore, the share of the manufactured exports of the NICs that can be classified as "high tech" soared from 2 percent in 1964 to 25 percent in 1985, and those embodying "medium" levels of technological sophistication rose from 16 percent to 22 percent during this same period (Organization for Economic Cooperation and Development 1988, p. 24). This expansion in the quantity and quality of the Third World's export capacity, particularly for manufactured goods, embraces such a diverse array of countries that it appears to be part of a general restructuring in the world economy.

East and Southeast Asian nations more than doubled the advanced industrial countries' average annual export growth rate of 4.1 percent with a sizzling standard of 9.8 percent during the 1980s. The star performers from this region (Thailand, South Korea, Taiwan, and China) nearly tripled the OECD average with yearly export growth rates ranging from 13 to 11 percent for the past decade. Taiwan and South Korea topped the list of individual exporters in 1990 with $67 and $65 billion in overseas sales, respectively, followed closely by China ($62 billion) and then Singapore ($53 billion). In the next tier, Hong Kong, Brazil, Mexico, and several of the Southeast Asian nations (Malaysia, Indonesia, and Thailand) all generated substantial exports, ranging from $31 to $23 billion. Exports accounted for 26 percent of GDP in East and Southeast Asia, in contrast to an export/GDP ratio of 15 percent for the OECD nations (World Bank 1992, pp. 244–45).

In exports as in production, manufactures are the chief source of the Third World's dynamism. In 1990, manufactured items constituted well over 90 percent of total exports in the East Asian NICs (except Singapore), and nearly three-quarters of all exports in China and India. For the major Latin American economies, the share of manufactures in total exports is between one-third and one-half, while in sub-Saharan Africa the manufacturing figure is less than 10 percent (World Bank 1992, pp. 248–49).

The maturity or sophistication of a country's industrial structure can be measured by the complexity of the products it exports. Here again, the East Asian NICs are the most advanced. In Singapore and South Korea, overseas sales of machinery and transport equipment, which utilize capital- and skill-intensive technology, grew by 38 and 34 percent, respectively, from 1965 to 1990 as a share of total merchandise exports. Taiwan's exports in this category increased by 21 percent and Hong Kong's by 16 percent. In Southeast Asia, Malaysia (25 percent) and Thailand (20 percent) have been strong performers, while in Latin America, Mexico (24 percent) and Brazil (16 percent) also made machinery and transport equipment a dynamic export base (World Bank 1992, pp. 248–49).

It is interesting to note that textiles and clothing, the most dynamic export sector in the East Asian NICs in the 1960s, actually shrank as a proportion of total exports in these four nations (as well as India) during the past 25 years. Nonetheless, while the NICs in East Asia and other regions were shifting into more advanced export industries, textiles and clothing became a key growth sector for countries at lower levels of development like Pakistan, Bangladesh, Thailand, and Indonesia. Despite their status as "traditional" industries in developed countries, textiles and clothing actually represent the leading edge of economic globalization for Third World nations that seek to be successful exporters of manufactured goods.

Geographical Specialization and Export Niches

While the diversification of the NICs' exports toward nontraditional manufactured items is a clear trend, less well recognized is the tendency of the NICs to develop higher levels of specialization in their export profiles. Within a given region, such as East Asia or Latin America, nations tend to establish particular export niches within the world economy. In the footwear industry, for example, South Korea specialized in athletic footwear, Taiwan in vinyl and plastic shoes, Brazil in low-priced women's leather shoes, Spain in medium-priced women's leather shoes, and Italy in high-priced fashion shoes. Mainland China traditionally has been a major player in the low-priced end of the world footwear market, especially in

canvas and rubber shoes. Because of its low wages and vast production capacity, however, China now has displaced Taiwan and South Korea from many of their midlevel niches, and it is challenging Brazil, Spain, and even Italy in the fashionable leather footwear market (Gereffi and Korzeniewicz 1990). Similar trends are apparent for numerous other consumer items and even intermediate goods, such as semiconductors.[21]

International competitiveness thus depends on a nation's ability to consolidate and upgrade its industrial export niches. Large, vertically integrated companies in the Third World (such as South Korea's *chaebol* and TNCs in Singapore) have significant advantages in forging forward and backward linkages in their production networks because of scale economies and substantial financial support from the state. However, established exporters in small firm–dominated economies like Taiwan and Hong Kong also have been successful in their efforts to move downstream by mergers and acquisitions that give them access to brand names and marketing outlets in their major overseas markets.

More generally, new production and trade patterns in the world economy tend to be coordinated by transnational capital of two types: (1) transnational manufacturing firms that shape the globalization of production by their strategic investment decisions; and (2) the foreign buyers (retailers and branded merchandisers) of consumer goods in the developed countries that use their large orders to mobilize global export networks composed of scores of overseas factories and traders. As we will see in the following section, transnational manufacturers and foreign buyers are the main agents in producer-driven and buyer-driven global commodity chains, respectively.

Producer-driven versus Buyer-driven Commodity Chains

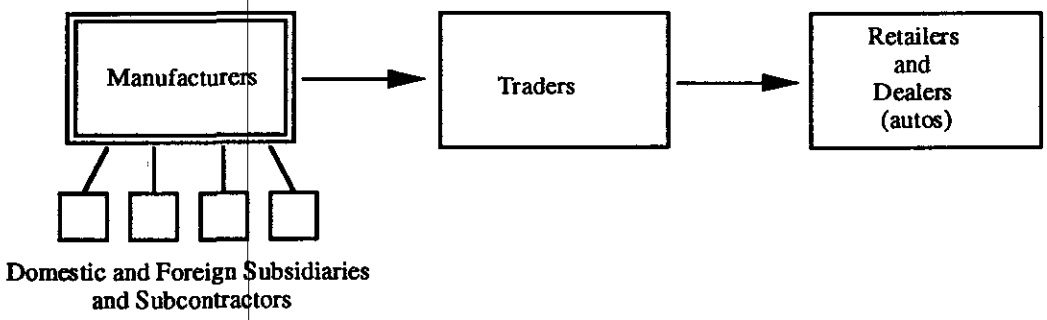
Global commodity chains (GCCs) are rooted in transnational production systems that give rise to particular patterns of coordinated international trade.[22] A "production system" links the economic activities of firms to technological and organizational networks that permit companies to develop, manufacture, and market specific commodities. In the transnational production systems that characterize global capitalism, economic activity is not only international in scope; it also is global in its organization. While "internationalization" refers simply to the geographical spread of economic activities across national boundaries, "globalization" implies a degree of functional integration between these internationally dispersed activities (Dicken 1992). The requisite administrative coordination is carried out by diverse corporate actors in centralized as well as decentralized economic structures. The GCC perspective thus highlights the need to look not only at the geographical spread of transnational production arrangements, but also at their organizational scope (i.e., the linkages between various economic agents—raw material suppliers, factories, traders, and retailers) in order to understand their sources of both stability and change.

Global commodity chains have three main dimensions: (1) an input-output structure (i.e., a set of products and services linked together in a sequence of value-adding economic activities); (2) a territoriality (i.e., spatial dispersion or concentration of production and marketing networks, comprised of enterprises of different sizes and types); and (3) a governance structure (i.e., authority and power relationships that determine how financial, material, and human resources are allocated and flow within a chain) (see Storper and Harrison 1991). Two distinct types of governance structures for GCCs have emerged in the past two decades, which for the sake of simplicity can be called "producer-driven" and "buyer-driven" commodity chains (see fig. 1).[23]

"Producer-driven commodity chains" refers to those industries in which transnational corporations or other large integrated industrial enterprises play the central role in controlling the production system (including its backward and forward linkages). This is most characteristic of capital- and technology-intensive industries like automobiles, computers, aircraft, and electrical machinery. The geographical spread of these industries is transnational, but the number of countries in the commodity chain and their levels of development are varied. International subcontracting of components is common, especially for the most labor-intensive production processes, as are strategic alliances between international rivals. What distinguishes producer-driven production systems is the control exercised by the administrative headquarters of TNCs.

The automobile industry offers a classic illustration of a producer-driven commodity chain. In his comparative study of Japanese and U.S. car companies, Hill shows how both sets of firms

1) **Producer-driven Commodity Chains**
(Industries such as automobiles, computers, aircraft, and electrical machinery)



2) **Buyer-driven Commodity Chains**
(Industries such as garments, footwear, toys, and housewares)

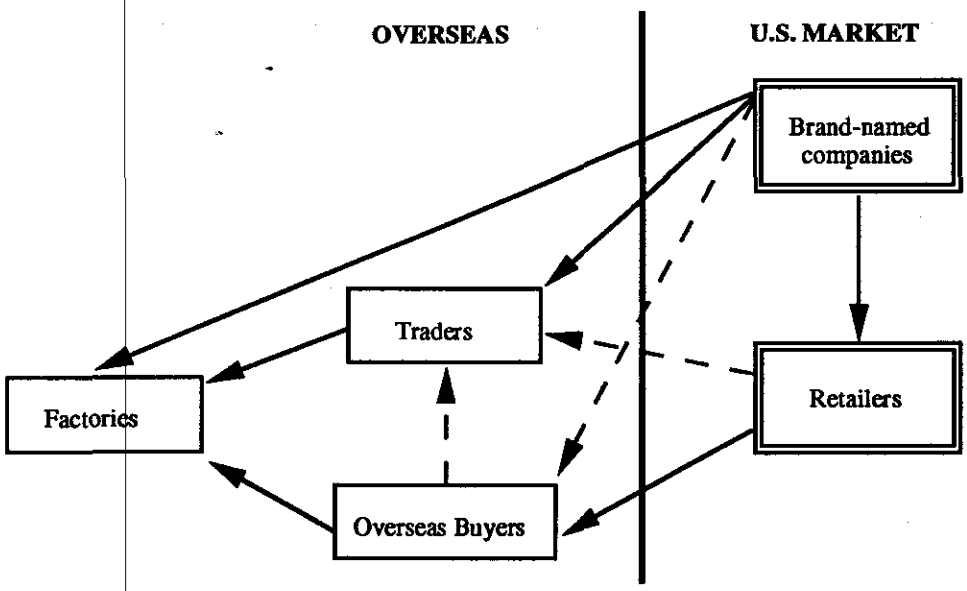


FIGURE 1. The Organization of Producer-driven and Buyer-driven Global Commodity Chains. Solid arrows indicate primary relationships; dashed arrows show secondary relationships. In section (2), note that design-oriented national brand companies, such as Nike, Reebok, Liz Claiborne, and Mattel Toys, typically own no factories. Some, like The Gap and The Limited, have their own retail outlets that only sell private-label products. *Source:* Gereffi (1994, p. 98).

organize manufacturing in multilayered production systems that involve thousands of firms (including parents, subsidiaries, and subcontractors).[24] Florida and Kenney (1991) have found that Japanese automobile manufacturers actually reconstituted many aspects of their home-country supplier networks in North America. Doner (1991) extends this framework to highlight the complex forces that drive Japanese automakers to create regional production schemes for the supply of auto parts in a half-dozen nations in East and Southeast Asia. Henderson (1989) also supports the notion that producer-driven commodity chains have established an East Asian division of labor in his study of the internationalization of the U.S. semiconductor industry.

"Buyer-driven commodity chains" refers to those industries in which large retailers, brand-

named merchandisers, and trading companies play the pivotal role in setting up decentralized production networks in a variety of exporting countries, typically located in the Third World. This pattern of trade-led industrialization has become common in labor-intensive, consumer goods industries such as garments, footwear, toys, household goods, consumer electronics, and a wide range of hand-crafted items (e.g., furniture, ornaments). International contracting is generally carried out by independent Third World factories that make finished goods (rather than components or parts) under original equipment manufacturer (OEM) arrangements. The specifications are supplied by the buyers and branded companies that design the goods.

One of the main characteristics of firms that fit the buyer-driven model, including athletic footwear companies like Nike,[25] Reebok, and L.A. Gear, and fashion-oriented clothing companies like The Limited, The Gap, and Liz Claiborne, is that frequently these businesses do not own any production facilities. Technically, they are not "manufacturers" because they have no factories. Rather, these companies are "merchandisers" that design and/or market, but do not make, the branded products they sell. These firms rely on complex tiered networks of overseas production contractors that perform almost all their specialized tasks. Branded merchandisers may farm out part or all of their activities—product development, manufacturing, packaging, shipping, and even accounts receivable—to different agents around the world.

The main job of the core company in buyer-driven commodity chains is to manage these production and trade networks and to make sure all the pieces of the business come together as an integrated whole. Profits in buyer-driven chains thus derive not from scale, volume, and technological advances as in producer-driven chains, but rather from unique combinations of high-value research, design, sales, marketing, and financial services that allow the buyers and branded merchandisers to act as strategic brokers in linking overseas factories and traders with evolving product niches in their main consumer markets.[26]

The distinction between producer-driven and buyer-driven commodity chains bears on the debate concerning mass production and flexible specialization forms of industrial organization (Piore and Sabel 1984). Mass production is clearly a producer-driven model (in our terms), while flexible specialization has been spawned, in part, by the growing importance of segmented demand and more discriminating buyers in developed-country markets. One of the main differences between the GCC and flexible specialization perspectives is that Piore and Sabel deal primarily with the organization of production in domestic economies and local industrial districts, while the notion of producer-driven and buyer-driven commodity chains focuses on the organizational properties of global industries. Furthermore, a buyer-driven commodity chain approach would explain the emergence of flexibly specialized production arrangements at least partially in terms of changes in the structure of consumption and retailing, which in turn reflect demographic shifts and new organizational imperatives. Finally, while some of the early discussions of flexible specialization implied that it is a "superior" manufacturing system that might eventually displace or subordinate mass production, buyer-driven and supplier-driven commodity chains are viewed as contrasting (but not mutually exclusive) poles in a spectrum of industrial organization possibilities.

An explanation for the emergence of producer-driven and buyer-driven commodity chains can be derived from the barriers to entry that allow core industrial and commercial firms, respectively, to control the backward and forward linkages in the production process. Industrial organization economics tells us that profitability is greatest in the relatively concentrated segments of an industry characterized by high barriers to the entry of new firms. Producer-driven commodity chains are capital- and technology-intensive. Thus manufacturers making advanced products like aircraft, automobiles, and computer systems are the key economic agents in these producer-driven chains not only in terms of their earnings, but also in their ability to exert control over backward linkages with raw material and component suppliers, as well as forward linkages into retailing.

Buyer-driven commodity chains, on the other hand, which characterize many of today's light consumer goods industries, tend to be labor-intensive at the manufacturing stage. This leads to very competitive and globally decentralized factory systems. However, these same industries are also design- and marketing-intensive, which means that there are high barriers to entry at the brand-name merchandising and retail levels where companies invest considerable sums in product development, advertising, and computerized store networks to create and sell these items. Therefore, whereas producer-driven commodity

chains are controlled by core firms at the point of production, the main leverage in buyer-driven industries is exercised at the retail end of the chain.

Patterns and Prospects for Third World Development

The global production systems discussed above raise a host of questions for Third World development. How can countries ensure that they enter the most attractive export niches in which they have the greatest relative advantages? To what extent is a country's position in the global manufacturing system structurally determined by the availability of local capital, domestic infrastructure, and a skilled workforce? What are the range of export options available to Third World countries? While these queries cannot be answered fully here, some initial implications of these global changes for Third World development will be suggested.

New Export Roles in the World Economy

In the global manufacturing system, different locales have distinct "modes of incorporation" in the world economy. This can be seen by looking at the five types of export roles that exist today: (1) primary commodity exports; (2) export processing zones; (3) component supply subcontracting; (4) original equipment manufacturing; and (5) original brandname manufacturing. Third World regions and countries occupy these export roles in various combinations and sequences (see table 2).

Primary Commodity Exports. The primary commodity export role continues to be significant throughout the Third World, except for Hong Kong, South Korea, and Taiwan. However, with the notable exception of sub-Saharan Africa, all of the major Third World regions substantially diminished their reliance on natural resource exports between 1965 and 1990. In sub-Saharan Africa, primary commodities have dominated 90 percent of the region's merchandise exports since 1965. Only South Africa shifted away from this model, with raw materials representing only one-quarter of its exports by 1990.

The commodity export role still is of prime importance for Latin America and Southeast Asia, where natural resources account for between one-third and two-thirds of total exports. Nonetheless, the countries in both regions have taken major strides toward expanding the prominence of manufactured goods in their total export mix during the past twenty-five years. South Asia, along with China and Singapore, shows relatively low levels of reliance on raw material exports, with primary commodities accounting for only 26 to 30 percent of all merchandise exports in 1990. Although less than 10 percent of the exports of the other three East Asian NICs are primary commodities today, in 1965 natural resource exports were quite significant indeed to both South Korea and Taiwan, making up 40 percent and 30 percent of their export totals, respectively (World Bank 1992, pp. 248–49). Thus, primary commodity exports have been an important feature in the recent economic evolution of every major Third World region.

Export Processing Zones (EPZs). The export processing role emphasizes the labor-intensive assembly of simple manufactured goods, typically in foreign-owned plants. These zones offer special incentives to foreign capital and tend to attract firms in a standard set of industries, such as apparel, electronics, and other light manufacturing sectors. The main advantages of EPZs are job creation and foreign exchange earnings. Since they rely on cheap labor with minimal skills, EPZs represent the first stage of export-oriented industrialization for most Third World countries. Although every region of the Third World has some experi-

Table 2. Export Roles in the Global Economy Occupied by Major Third World Regions, 1965–1990

	Primary Commodity Exports	*Export-Processing Zones*	*Component Supply Subcontracting*	*Original Equipment Manufacturing*	*Original Brandname Manufacturing*
East Asia	X	X	X	X	X
Southeast Asia	X	X	X		
Latin America and Caribbean	X	X	X		
South Asia	X	X			
Sub-Saharan Africa	X	X			

ence with EPZs, since 1965 these zones have migrated from the most advanced to less developed regions of the Third World.

The first EPZs were set up in the 1960s in Asia as well as Mexico. In the East Asian NICs, however, EPZs have been declining since the mid-1970s in response to steadily increasing labor costs and the systematic efforts of these nations to upgrade their mix of export activities by moving toward more skill- and technology-intensive products. As East Asia's NICs abandoned the export processing role, it was occupied by neighboring low-wage areas such as China, Southeast Asia, and South Asia.

Sub-Saharan Africa lags behind the other Third World regions in terms of its limited number of EPZs, in large part because of the inadequate transportation and communication infrastructure in many parts of the African region, its shortage of concentrated pools of low-wage labor, and cultural barriers to foreign investors. However, there are cases of very successful EPZs in Africa, such as Mauritius, which usually have flourished due to special external conditions.

In Mexico, Central America, and the Caribbean, export-processing industries are growing rapidly because the wage levels in most countries of the region are considerably below those of the East Asian NICs, although they are not as low as the wages in Southeast Asia and South Asia. However, the EPZs in Latin America also have the advantage of geographical proximity to the most important industrialized market, the United States.[27] Moreover, currency devaluations in the 1980s made the price of Latin American exports highly competitive internationally. While Mexico's maquiladora program contains the world's largest set of EPZ plants, the country has made a conscious effort to attract investors in the high technology, component supply industries (the so-called "new" maquiladoras) and to allow the simple, unskilled assembly operations of the "old" maquiladoras to move to lower-wage countries in Central America and the Caribbean (see Gereffi 1992).

Component supply subcontracting. Component supply subcontracting refers to the manufacture and export of component parts in technologically advanced industries in the NICs, with final assembly usually carried out in the developed countries. This has been an especially important feature of the automobile and computer industries. The primary advantage of this export role is that it can facilitate industrial upgrading and technology transfer in the NICs, and it may generate significant backward linkages to local supplier industries. A potential liability is that these enterprise webs are controlled by TNCs, which often subordinate national development criteria to their own objectives of global profitability and flexibility.

The component supplier role has been a major niche for the Latin American NICs' manufactured exports during the past two decades. Brazil and Mexico have been important production sites for vertically integrated exports by transnationals to core country markets, especially the United States, since the late 1960s. This is most notable in certain industries, like motor vehicles, computers, and pharmaceuticals. American and Japanese automotive TNCs, for example, have advanced manufacturing plants in Mexico and Brazil for the production of engines, auto parts, and even completed vehicles for the U.S. and European markets (Shaiken 1990). By the 1970s, component supply exporting had become an intrinsic part of the regional division of labor in East Asia's electronics industry (Henderson 1989), and in the 1980s, Japanese automotive firms took the lead in creating an elaborate parts supply arrangement with foreign and local capital in Southeast Asia (Doner 1991).

Original equipment manufacturing (OEM). OEM refers to the production of finished consumer goods by local firms, where the output is distributed and marketed abroad by large trading companies, retail chains, or their agents. This form of global sourcing, also known as contract manufacturing (or specification contracting), is the major export niche filled by the East Asian NICs in the world economy.[28] In 1980, for example, Hong Kong, Taiwan, and South Korea accounted for 72 percent of all finished consumer goods exported by the Third World to the advanced industrial countries, other Asian nations supplied another 19 percent, while just 7 percent came from Latin America and the Caribbean. The United States was the leading market for these consumer products with 46 percent of the total (Keesing 1983, pp. 338–39). East Asian factories, which have handled the bulk of the specification contracting orders from U.S. retailers, tend to be locally owned and vary greatly in size—from the giant plants in South Korea to the myriad small family firms that account for a large proportion of the exports from Taiwan and Hong Kong.

The main advantage of this export role is that it generates substantial backward linkages to the domestic economy because production is controlled by local firms. The major drawback is that

it is very difficult to establish forward linkages to the developed country markets, where the biggest profits are made in the importing and marketing of these consumer items. To date, East Asia is the only Third World region that has established the diversity of efficient supporting industries needed to have a vibrant model of OEM production. Equally important, East Asian manufacturers have maintained their close ties with foreign buyers, which has permitted these contractors to adopt middleman roles in the "triangle manufacturing" arrangements that facilitate the shift of OEM production to Southeast and South Asia, Latin America, and even sub-Saharan Africa (see below). However, foreign buyers eventually will be driven by cost considerations to set up direct contacts with their main Third World production sites. Thus, a number of the firms in the East Asian NICs that pioneered OEM now are pushing beyond it by integrating their manufacturing expertise with retailing.

Original brandname manufacturing (OBM). The final stage in the development of an export economy is to move beyond OEM production for foreign buyers to the establishment of proprietary brand names that allow Third World exporters to have their own presence in both local and core country retail networks. South Korea is perhaps the most advanced of the East Asian countries in this regard, with Korean brands of automobiles, computers, and household appliances being sold in North America, Europe, and Japan. Taiwan also sells its own brands of computers, bicycles, tennis rackets, and shoes in overseas markets, while Hong Kong has been successful in developing apparel trade names and retail chains to sell their own brands of clothing in Western nations as well as in many Asian countries, including China. Mexican beer has been one of the only branded products in Latin America that has developed a retail niche in the U.S. market.

This OBM option, while remote for even relatively advanced Third World regions like Latin America and Southeast Asia at present, establishes a standard against which successful export industries must be evaluated. Domestic entrepreneurs that are internationally competitive in manufacturing ***and*** that can create a strong brand image are the main economic agents that have an incentive for forward integration into retailing. The stakes are high, however, since successful retailers will be battling one another for a foothold in growing niche markets in North America and beyond.

Triangle Manufacturing

One of the most important adjustment mechanisms for maturing export industries in East Asia is the process of "triangle manufacturing" that came into being in the 1970s and 1980s. The essence of triangle manufacturing is that U.S. (or other overseas) buyers place their orders with the NIC manufacturers they have sourced from in the past (e.g., Hong Kong or Taiwanese apparel firms), who in turn shift some or all of the requested production to affiliated offshore factories in one or more low-wage countries (e.g., China, Indonesia, or Vietnam). These offshore factories may or may not have equity investments by the East Asian NIC manufacturers: they can be wholly owned subsidiaries, joint-venture partners, or simply independent overseas contractors. The triangle is completed when the finished goods are shipped directly to the overseas buyer, under the U.S. import quotas issued to the exporting nation. Payments to the non-NIC factory usually flow through the NIC intermediary firm.[29]

Triangle manufacturing thus changes the status of the NIC manufacturer from a primary production contractor for the U.S. buyers to a middleman in the buyer-driven commodity chain. The key asset possessed by the East Asian NIC manufacturers is their longstanding link to the foreign buyers, which is based on the trust developed over the years in numerous successful export transactions. Since the buyer has no direct production experience, it prefers to rely on the East Asian NIC manufacturers it has done business with in the past to ensure that the buyer's standards in terms of price, quality, and delivery schedules will be met by new contractors in other Third World locales. As the volume of orders in new production sites like China, Indonesia, or Sri Lanka increases, the pressure grows for the U.S. buyers to eventually bypass their East Asian NIC intermediaries and deal directly with the factories that fill their large orders.

The process of third-party production began in the late 1960s when Japan relocated numerous plants and foreign orders to the East Asian NICs (often through Japanese trading companies or *sogo shosha*) for both economic and environmental reasons.[30] When U.S. import quotas were imposed on Hong Kong, Taiwan, South Korea, and Singapore in the 1970s, this led to the search for new quota-free production sites elsewhere in

Asia. Then in the 1980's the shift toward triangle manufacturing accelerated because of domestic changes—increased labor costs, labor scarcity, and currency appreciations—in the East Asian NICs. Today, the East Asian NICs are extending their network of factories and orders to a wide range of countries in Asia, Latin America, and Africa.

Triangle manufacturing has several important implications for Third World development. First, it indicates that there are repetitive cycles as the production base for an industry moves from one part of the world to another. An important hypothesis here is that the "window of opportunity" for each new production base (Japan–East Asian NICs–Southeast Asian countries–China–Vietnam–the Caribbean) is growing progressively shorter as more new entrants are brought into these global sourcing networks. The reasons include the fact that quotas on new exporting countries in products like apparel are being applied more quickly by the United States, and technology transfer from the East Asian NICs is becoming more efficient.

The second implication of "triangle manufacturing" is for social embeddedness. Each of the East Asian NICs has a different set of preferred countries where it sets up its new factories. Hong Kong and Taiwan have been the main investors in China; South Korea has been especially prominent in Indonesia, Guatemala, the Dominican Republic, and now North Korea; and Singapore is a major player in Southeast Asian sites like Malaysia and Indonesia. These production preferences are explained in part by social and cultural networks (e.g., ethnic or familial ties, common language), as well as by unique features of a country's historical legacy (e.g., Hong Kong's British colonial ties gave it an inside track on investments in Jamaica).

Finally, triangle manufacturing has allowed the East Asian NICs to successfully move beyond OEM production. Most of the leading Hong Kong apparel manufacturers have embarked on an ambitious program of forward integration from apparel manufacturing into retailing. Almost all of the major Hong Kong apparel manufacturers now have their own brand names and retail chains for the clothing they make. These retail outlets started out selling in the Hong Kong market, but now there are Hong Kong–owned stores throughout East Asia (including China), North America, and Europe. These cycles of change for East Asian manufacturers suggest the need for more elaborated product life cycle theories of Third World industrial transformation.

Concluding Remarks

New patterns of industrial organization in the international economy have important consequences for national development in both Third World and advanced industrial nations. First, production networks for most goods are rarely contained within a single country's borders anymore. Economic activity is globally organized in commodity chains that incorporate countries at diverse levels of economic development. A nation's development prospects thus are dependent on how it is inserted into GCCs. Countries improve their position in the international economy by moving to high-value rather than high-volume economic activities.

Second, every major geographical area of the world tends to have its own regional division of labor. While considerable attention has been given to the emergence of regional trading blocs in the international economy in the past decade, this view is at best partially correct. There is no "fortress North America," "fortress Europe," or "fortress Asia" in the sense of regions that are isolated from one another in terms of international investment and trade. The United States, Germany, and Japan clearly are the strongest economies in the world. Although the recently signed North American Free Trade Agreement, the launching of the single market in the European Community in 1992, and the possible resurgence of a "Greater East Asian Co-Prosperity Sphere" point to a deepening of regional divisions of labor in production and trade, the core nations in the global economy also maintain extensive production and trade relations with each of the other major regions. Substantial cross-investments between Asia, North America, and Europe by large and small countries alike[31] suggest a growing multilateralization (rather than polarization) of these regional blocs.

Third, the increased pace of economic specialization in the world economy appears to be shortening the product cycles for countries pursuing export-oriented industrialization. These changes have multiple causes, including: rapid technological innovation; the growing number of buying seasons for fashion goods;[32] the proliferation of

new models of popular consumer products;[33] the spread of Third World manufacturing capabilities; and the speed with which the United States and other developed countries are imposing tariffs, quotas, and other import restrictions on successful exporting countries. As export windows for Third World manufacturers narrow more quickly, countries face the problems of "boom-and-bust" cycles of economic growth tied to fluctuating external demand and intense regional competition.

One solution to this problem has been for Third World exporters to decrease their reliance on their traditional overseas markets, especially the United States whose consumer demand has fueled East Asia's export growth for nearly three decades. By 1989, the four East Asian NICs had cut their dependence on the U.S. market to between one-quarter and two-fifths of their total exports.[34] Even more significantly, a number of East Asian factories began to move beyond OEM production by setting up their own retail outlets, with an eye toward large Asian markets such as China and Japan, and by exporting their own branded products to a wide variety of European and North American locations.

The international competitiveness debate in the United States and other developed countries reflects the lack of an overarching paradigm in development studies. The difficulty may lie in the fact that today we face a situation where (1) the political unit is ***national***, (2) industrial production is ***regional***, and (3) capital movements are ***international***.[35] The rise of Japan and the East Asian NICs in the 1960s and 1970s is the flip side of the "deindustrialization" that occurred in the United States and much of Europe. Declining industries in North America have been the growth industries in East Asia. But these changes by no means stop with the initial waves of East Asian exports. The cycles of industrial growth and decline are continuing throughout the world. As new sets of nations are being incorporated into the production and export networks of GCCs, previously successful exporters like the East Asian NICs are struggling to make the transition to new products and high-value service activities. Third World nations and developed countries find themselves enmeshed in the same global enterprise webs. Economic and political interdependencies mean that new models of development must continue to be forged not only in the sphere of advanced technologies and new products, but in continuously upgrading the skills of the workforce of competitive nations.

Notes

The author would like to thank Gary Hamilton, Neil Smelser, and Richard Swedberg for their helpful comments on earlier drafts of this chapter.

1. There is an extensive debate about whether the origins of capitalist economic development in Europe should be equated with a trade-based division of labor. Brenner (1977) accuses both Wallerstein (1974) and Sweezy (1976) of being "neo-Smithian Marxists" because, like Adam Smith, they assume that the historical problem of the origins of capitalism is essentially the same as the emergence of a mercantile division of labor, whereby trade-based specialization begets a series of productivity increases due to specialization—a process ultimately leading to the transformation of productive forces and productive relations. Brenner rejects this position in favor of a class-based analysis that focuses on the emergence of a system of free wage labor as the defining feature of the feudalism-capitalism transition. There certainly was an international market knit together by long-distance trading routes, merchants, and financial networks that existed in medieval Europe prior to the onset of capitalism (for example, see Abu-Lughod 1989 and Tracy 1990 on European long-distance trade in the thirteenth to fifteenth centuries, and Swedberg 1990b on international banking networks in fifteenth-century Europe). Thus, there was an "international economy" based on institutionalized trade before there was a capitalist world-economy.

2. For a fuller discussion of these major phases in the development of the international economy, see the introduction to Makler, Martinelli, and Smelser (1982).

3. The World Bank provides a well documented discussion of these trends in its 1991 *World Development Report*, entitled "The Challenge of Development" (World Bank 1991).

4. See Stallings (1982, pp. 195–96) for a parallel treatment of these theories.

5. In the words of Lenin ([1917] 1939, p. 65): "The export of capital greatly affects and accelerates the development of capitalism in those countries to which it is exported."

6. Marx's most detailed writings on the social and economic conditions of the non-European world dealt with Asia, and in particular India. According to Marx, the two essential characteristics of oriental societies were: they possessed a unique mode of production based on common property (i.e., the absence of private property in land) that led to oriental despotism; and they were "unhistorical" because they were unchanging and stagnant (Avineri 1969, p. 12). Colonialism thus was considered to be dialectically necessary for the world revolution of the proletariat because otherwise the countries of Asia (and presumably also Africa) would be unable to emancipate themselves from their stagnant backwardness.

7. While Rosa Luxemburg ([1913] 1952) accepted the inevitability of capitalist imperialism, she differed sharply with Lenin and Hilferding in terms of their stage theories of imperialism. Luxemburg believed that imperialism, defined as "the political expression of the accumulation of capital in its competitive struggle for what remains still open of the noncapitalist environment" (Fieldhouse 1967, p. 89), characterizes every stage of capitalist development.

8. One prominent contemporary social scientist, Johan Galtung (1971), has proposed a "structural theory of imperialism" that eschews the economic reductionism of Marxist-Leninist theory, and instead tries to abstract from dominance and power relationships those elements that are peculiar to situations of imperialism.

9. Albert Hirschman (1981) goes further and links development economics with two basic ideas that were prevalent in the 1940s and 1950s: a rejection of the "monoeconomics" claim, and its replacement by the belief that advanced industrial countries and underdeveloped countries had distinct economic characteristics and therefore required different kinds of economics; and an acceptance of the "mutual benefit" claim that economic relations between these two groups of countries could be shaped in ways that yielded gains for both.

10. Actually, the GATT was originally designed to serve as a temporary forerunner of the International Trade Organization (ITO), pending ratification of the 1947 Havana charter. As initially conceived, the ITO was not only to govern trade barriers, but also to deal with topics such as international commodity agreements, infant industries, private foreign investment, cartels, and restrictive business practices. But the ITO was rebuffed in the U.S. Congress (Diebold 1952) and GATT survived as the narrower substitute, becoming permanent in 1955. Eventually, some of the functions proposed for the ITO were assumed by the United Nations Conference on Trade and Development (UNCTAD), whose first director was Raúl Prebisch in 1964.

11. Prebisch's own words show the clear affinity with subsequent approaches, especially dependency theory: "For each peripheral country, the type and extent of its linkage with the center depended largely on its resources and its economic and political capacity for mobilizing them. In my view, this fact was of the greatest importance, since it conditioned the economic structure and dynamism of each country—that is the rate at which technical progress could penetrate and the economic activities such progress would engender" (Prebisch 1984, p. 177).

12. There have been a number of empirical critiques of the Prebisch-Singer terms of trade thesis that claim there has been a terms of trade improvement for developing countries since the 1950s. See Kravis and Lipsey (1971; 1981) and Balassa (1981) for some evidence.

13. This typology was proposed by Jagdish N. Bhagwati in his "Comment" in Meier and Seers (1984, pp. 197–204).

14. In the Harrod-Domar model, the growth rate (g) equals the savings-income ratio (s) divided by the capital-output ratio (k).

15. This section draws on Hirschman (1984), and the excellent interview with him in Swedberg (1990a, pp. 152–85).

16. A review of the vast literature on modernization theory is beyond the scope of this chapter. The role of modernization studies of the world economy is treated to some extent in Evans and Stephens (1988). Other useful essays on this approach in sociology, political science, and economics include Hagen (1962), Bendix (1967), Gusfield (1967), Lerner (1968), Huntington (1971), Portes (1973; 1976), Tipps (1973), and Valenzuela and Valenzuela (1978).

17. The dependency literature is very extensive. Some of the best known early formulations of this approach include Frank (1967), Cardoso and Faletto ([1969] 1979), Cardoso (1972; 1973), Dos Santos (1969; 1970), and Amin ([1973] 1976). For several reviews of the key debates, see Palma (1978), Gereffi (1983, chap. 1), Blomström and Hettne (1984), Haggard (1989), and Packenham (1992).

18. One of the major debates within dependency theory was over the issue of "nondependency." Marxists who believed that dependency was caused by the economics of capitalism saw its opposite as ***socialism***. Liberals who viewed dependency as a political-economic problem caused by disparities of power between nations and social classes, or nationalists who manifested a concern with the strengthening of peripheral capitalism within the world economy, took the opposite of dependency to be ***autonomy***. Finally, those who conceptualized dependency in terms of the narrower phenomenon of external reliance on other actors preferred the notion of ***interdependence***. For a discussion of these various ideas, see Gereffi (1983, pp. 21–30), Cardoso (1982), and Caporaso (1978).

19. Immanuel Wallerstein has played a major role in the institutionalization of world-systems theory within the U.S. academic context. With the help of Terence Hopkins, Wallerstein created and directs the Fernand Braudel Center for the Study of Economies, Historical Systems, and Civilizations at Binghamton University in the state of New York. The Fernand Braudel Center has a quarterly journal, *Review*, which has brought together an international collection of articles and comments on the history and contemporary implications of the world-system. There is a Political Economy of the World-System (PEWS) section of the American Sociological Association established by Wallerstein and a number of his followers. Since 1976, Wallerstein has coordinated a series of annual PEWS conferences held at various American universities. The conference volumes, which usually are edited by scholars affiliated with the host institutions, were published initially by Sage Publications and currently by Greenwood Press.

20. For other evaluations and critical discussions of Wallerstein and world-systems theory, see Brenner (1977), Skocpol (1977), Evans (1979b), Chirot and Hall (1982), Chirot (1986), and Ragin and Chirot (1984).

21. South Korea, for instance, has focused on the mass production of powerful memory chips, while Taiwan makes high-value designer chips that carry out special functions in toys, video games, and electronic equipment. Singapore has upgraded its activities from the assembly and testing of semiconductors to the design and fabrication of silicon wafers.

22. This section is adapted from Gereffi (1994).

23. These two patterns of international industrial organization are best conceptualized as ideal types, rather than as a dichotomy or a continuum.

24. The average Japanese automaker's production system, for example, comprises 171 first-layer, 4,700 second-layer, and 31,600 third-layer subcontractors (Hill 1989, p. 466).

25. For an excellent case study of Nike's strategy of global sourcing, see Donaghu and Barff (1990).

26. The complex role of strategic brokers and other contemporary symbolic analysts is explored in Reich (1991).

27. There has been a proliferation of labor-intensive plants on the U.S. side of the border as well. Industries like garments and electronics are burgeoning in large cities such as Los Angeles, New York City, and Miami that can draw on vast pools of low-wage and in many cases undocu-

mented immigrant workers from Mexico, Central America, the Caribbean, and Asia. Many of these small factories have been set up by Korean, Chinese, Vietnamese, and Hispanic entrepreneurs to avoid U.S. trade barriers and to exploit low-cost labor, with the added advantage of direct access to the design and marketing centers in the United States.

28. "Contract manufacturing" is more accurate than the commonly used terms "international subcontracting" or "commercial subcontracting" to describe what the East Asian NICs have excelled at. "Subcontracting" is one type of relational contracting that involves the production of components or the carrying out of specific labor processes (e.g., stitching) for a factory that makes the finished item.

29. Typically this entails back-to-back letters of credit: the overseas buyer issues a letter of credit to the NIC intermediary, who then addresses a second letter of credit to the exporting factory.

30. The industries that Japan transferred to the East Asian NICs were popularly known as the "three D's": dirty, difficult, and dangerous.

31. For example, Hong Kong, South Korea, and Taiwan are becoming major investors in the United States, Canada, and Latin America.

32. Apparel companies like Liz Claiborne now have six to eight buying seasons per year, which means they replace their entire inventory with new products every two months.

33. Nike creates over one hundred new models of athletic shoes every year to stay ahead of its competitors, who try to imitate Nike's best selling styles as soon as they reach the stores.

34. The U.S. market remains most important for Taiwan (39 percent of total exports), followed by South Korea (35 percent), Singapore (30 percent), and Hong Kong (27 percent) (Dicken 1992, p. 37).

35. I am indebted to Richard Swedberg for bringing to my attention this formulation by Daniel Bell. See Bell's interview in Swedberg (1990a).

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