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# From economic nationalism to neo-liberalism: A comparative analysis of foreign economic policy-making in Venezuela and Jamaica

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# FROM ECONOMIC NATIONALISM TO NEO-LIBERALISM:

# A COMPARATIVE ANALYSIS OF FOREIGN ECONOMIC POLICY-MAKING IN VENEZUELA AND JAMAICA

A Dissertation

Presented to the Faculty of the Graduate School

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by

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# BIOGRAPHICAL SKETCH

Francis Adams received a Bachelor's degree in International Studies and Economics from Saint Thomas College (Saint Paul, Minnesota) in 1982. He then studied International Development Planning at Syracuse University and was awarded a Master's degree in 1984. After working two years for various public service organizations, Mr. Adams entered the graduate program in Government at Cornell University. At Cornell he studied International Relations, Political-Economy, and Latin American Politics. He received a Master's degree in 1989 and his Ph.D. in 1992. Mr. Adams has worked and conducted research in Central and South America, the Caribbean, and West Africa. He has also taught several courses, both while at Cornell and in his present position as Instructor of Politics at Ithaca College.

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Francis Adams
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### General

| | |
|---|---|
| ACP | African, Caribbean, and Pacific |
| CIEC | Council for International Economic Cooperation |
| ECLA | Economic Commision on Latin America |
| EEC | European Economic Community |
| EFF | Extended Fund Facility |
| GATT | General Agreement of Tariffs and Trade |
| GDP | Gross Domestic Product |
| GNP | Gross National Product |
| GSP | Generalized System of Prefences |
| IBRD | International Bank for Reconstruction and Development |
| IDA | International Development Association |
| IDB | Inter-American Development Bank |
| IMF | International Monetary Fund |
| IPC | Integrated Program of Commodities |
| ISI | Import-Substitution Industrialization |
| LDC | Less Developed Country |
| LIBOR | London Inter-Bank Offer Rate |
| NAM | NonAligned Movement |
| NIC | Newly Industrializing Country |
| NIEO | New International Economic Order |
| OAS | Organization of American States |
| OECD | Organization for Economic Cooperation and Development |
| OPEC | Organization of Petroleum Exporting Countries |
| SDR | Special Drawing Rights |
| SFF | Supplementary Finance Facility |
| SI | Socialist International |
| TNC | Transnational Corporation |
| UNCTAD | United Nations Commission on Trade and Development |

### Venezuela

| | |
|---|---|
| AD | Accion Democratica |
| ARDI | Revolutionary Association of the Left |
| AVEX | Association of Venezuelan Exporters |
| BCV | Venezuelan Central Bank |
| CEN | National Executive Committee |

| | |
|---|---|
| CENDES | Center for the Study of National Economic and Social Development |
| CONAPRI | National Council for Investment Promotion |
| COPEI | Committee for Political Organization and Independent Election |
| CORDIPLAN | Office of Coordination and Planning |
| CTV | Venezuelan Workers Confederation |
| CVF | Venezuelan Development Corporation |
| CVG | Venezuelan Guayana Corporation |
| CVP | Venezuelan Petroleum Corporation |
| FALN | Armed Forces for National Liberation |
| FIV | Venezuelan Investment Fund |
| FEDECAMARAS | Federation of Chambers and Association of Commerce and Production |
| FEV | Federation of Venezuelan Students |
| FINEXPO | Export Finance Fund |
| IVP | Venezuelan Petroleum Institute |
| LAFTA | Latin American Free Trade Association |
| MAS | Movement Toward Socialism |
| MIR | Movement of Revolutionary Left |
| OCEI | Central Office of Statistics and Information |
| OCI | Central Office of Information |
| PDN | National Democratic Party |
| PETROVEN | Petroleum Company of Venezuela |
| PCV | Communist Party of Venezuela |
| PDVSA | Venezuelan Petroleum, South America |
| PROMOEXPORT | Office of Export Promotion |
| RECADI | Registry of the Differential Exchange Rate |
| SELA | Latin American Economic System |
| SIEX | Superintendency of Foreign Investment |
| URD | Democratic Republican Union |

<u>Jamaica</u>

| | |
|---|---|
| ALCAN | Aluminum Company of Canada |
| ALCOA | Aluminum Company of America |
| BITU | Bustamente Industrial Trade Union |
| BOJ | Bank of Jamaica |
| CAP | Claredon Alumina Plant |
| CARICOM | Caribbean Common Market |
| CBI | Caribbean Basin Initiative |
| CDF | Capital Development Fund |
| CES | Certified Exporter Scheme |
| EDF | Export Development Fund |
| EPP | Emergency Production Plan |
| IBA | International Bauxite Association |
| JAMPRO | Jamaica Promotions |
| JCC | Jamaican Chamber of Commerce |
| JDP | Jamaica Development Bank |
| JIDC | Jamaican Industrial Development Corporation |

| | |
|---|---|
| JLP | Jamaican Labor Party |
| JMA | Jamaica Manufacturers Association |
| JNEC | Jamaican National Export Corporation |
| JNIP | Jamaica National Investment Promotions |
| NEC | National Executive Committee |
| NPA | National Planning Agency |
| NWU | National Workers Union |
| PIJ | Planning Institute of Jamaica |
| PNP | People's National Party |
| PSOJ | Private Sector Organization of Jamaica |
| STC | State Trading Corporation |
| TUC | Trade Union Congress |
| UDC | Urban Development Corporation |
| UWI | University of the West Indies |

## Chapter One

## FROM ECONOMIC NATIONALISM TO NEO-LIBERALISM

This project considers the foreign economic policies of Venezuela's Carlos Andres Perez and Jamaica's Michael Manley. During the 1970s, Perez and Manley were at the forefront of challenges to global liberalism, enacting highly restrictive trade and investment policies which were designed to shelter their domestic economies from international market forces. Although out of office during most of the 1980s, Perez and Manley returned to power in 1989. Their second administrations have not, however, led to the readoption of economically nationalist policies. Rather, both leaders now champion the re-integration of their domestic economies into the global market and the liberalization of their nations' trade and investment regimes.

This movement from economic nationalism to neo-liberalism is not unique to Venezuela and Jamaica. During the 1960s and 1970s a number of Latin American and Caribbean nations adopted restrictive trade and investment policies. Import-substitution industrialization (ISI) programs were employed to protect local producers from foreign competitors and strict limitations were placed on foreign direct investment. By shielding their economies from external forces these nations hoped to lay the foundation for "self-reliant" national development. In recent years, however, there has been a fairly widespread movement toward the liberalization of trade and investment regimes in Latin America and the Caribbean. Governments throughout the region have slashed import restrictions and established incentives to attract foreign investors. The integration of local economies in the global market has become the new orthodoxy.

The movement from economic nationalism to neo-liberalism is viewed from various perspectives. For some, it reflects a long overdue recognition of the benefits which can be gleaned from the external world. Access to foreign markets will stimulate local production and give consumers a wider selection of lesser priced goods. Similarly, foreign investment will bring an infusion of much needed capital and advanced technology, modernizing the nation's industrial base and increasing productive capacity. Expansion of the export sector will then stimulate other sectors of the economy, laying the foundation for national development and long-term participation in global markets.

For others, this shift is viewed more skeptically. Because trade relations take place in a highly monopolized world market, largely dominated by the industrialized states, Latin American and Caribbean exports are often undervalued relative to their manufactured imports. Reliance on a small number of export products also increases the vulnerability of these nations to market fluctuations while expanding imports undermines local agricultural and industrial producers.

In addition, foreign investment often creates small capital-intensive and labor-displacing export enclaves, largely cut off from the other sectors of the economy, which absorb local capital and pull resources toward primary rather than industrial production. Surplus generated domestically is then exported abroad rather than reinvested in the local economy. Once again, domestic production contracts as the human and material resources of these nations are used to benefit foreign economic interests. In short, broader participation in world markets is thought to prevent these nations from developing their own productive capabilities; they are left economically dependent on the manufactured goods, capital, and technology of the advanced states.

## Policy Choice in the Developing World

This study considers the trade and investment policies of the Perez and Manley administrations in an attempt to better understand and explain this movement from economic nationalism to neo-liberalism. In this way, I hope to contribute to the existing scholarship on foreign economic policy-making in Latin America and the Caribbean.

Past scholarship on policy-making in the developing world provides the theoretical backdrop for this project. In a general sense, this field has evolved through three distinct periods, each corresponding to a different level of analysis. While early studies focused on the role of individual decision-makers, researchers have since stressed the "structural" constraints of the foreign and domestic environment.

In the immediate post-colonial period, personality studies dominated research on policy-making in the developing world. It was frequently argued that because these nations had a relatively high concentration of power in the executive branch and few effective institutional or societal constraints, decision-makers had a considerable degree of autonomy and policy-making was highly personalized. As such, researchers often linked policy choice with the values, beliefs and motivations of key decision-makers.

Although decision-maker beliefs clearly conditioned policy choice, these early approaches were often faulted for neglecting the constraints of the "structural" environment. While decision-makers may have some room to maneuver, it was argued, their choices were largely limited by international or domestic structural constraints.

On the one hand, policy choice was frequently linked to asymmetries in the distribution of capabilities in the global system. Drawing largely from formal bargaining models, various scholars argued that the relatively weak position of developing states internationally, and their subordinate position in the world economy, limited their foreign policy autonomy. As such, developing nations were not expected to challenge the basic principles of global liberalism.

Other scholars linked trade and investment policies with the domestic distribution of power between various local actors, groups and classes. Domestic competition over the allocation of scarce national resources was considered at least as important in determining policy choice as the structure of the external environment. Domestic structures approaches placed particular emphasis on the relative strength of two key economic groups - the commercial elite linked to export trade and those industrialists producing more for the domestic market. In those cases where the commercial or international faction of capital was dominant, liberal trade and investment policies were expected. Dependency theorists, for example, argued that the commercial sector so dominated the economies of these nations that few states would deliberately challenge liberal principles. In those cases where a local manufacturing sector had emerged and gained some prominence in the local economy, however, more nationalist policies were expected.

Although structural approaches helped identify key foreign and domestic constraints on decision-making they have not always stood the test of empirical verification: nations with deteriorating external accounts or minimal industrial development have sometimes adopted highly protectionist trade and investment policies. While such anomalies are often due to a lag in the policy-making process or the reluctance of decision-makers to alter pre-existing policies in order to preserve their social base of support, these two factors have also been unable to account for policy choice in a number of cases.

State and Decision-Maker Autonomy

Both international and domestic structural approaches link state policies with environmental forces; trade and investment policies are thought to reflect the opportunities and constraints of the foreign and domestic environment. This highlights a critical weakness in both perspectives: since state policies are largely determined by these environmental conditions neither approach allows for the possible independent or autonomous role of the state.

The independent role of the state is particularly important in the Latin American and Caribbean context where the state has often been a key economic actor in its own right. Given the lack of a well-developed private sector, the state has frequently assumed an important role in the production of goods and services. In addition, because many of these nations have patronage or clientelist political systems, the state has frequently taken on a prominent role in the distribution of resources.

State involvement in the production and distribution of resources is evident in the Venezuelan and Jamaican cases.

Public enterprises dominate many of the key sectors of each nation's economy, especially in terms of the production of raw materials or minerals. In addition, clientelism is a prominent feature of both nations' political systems and the primary means through which state power is reproduced. State power is achieved and maintained through a system by which political elites grant patronage resources in exchange for electoral support.

International and domestic structural approaches are also weak on another account. These approaches tend to neglect the independent and often decisive role played by individual decision-makers. The perceptions, beliefs, and motivations of these individuals, so central to the early personality studies, have virtually dropped out of the analysis.

This project attempts to reincorporate the subjective attitudes and beliefs of key decision-makers. Since these individuals often misinterpret their foreign or domestic environments, fail to respond to changes in these environments, or respond differently to the same environmental influences, their attitudes, perceptions, and beliefs must be factored into the analysis. Policy choice is not based on the actual state of the foreign and domestic environment but on the perceptions which state decision-makers hold of these environments. As such, it is important to consider the subjective or perceptual lenses through which decision-makers view their world.

State policy generally reflects two fundamental concerns. On the one hand, decision-makers are concerned with which policies are necessary to maintain state power. How is the political system structured and what is the relative position of different groups within this system? To what extent is state power dependent on meeting the needs of politically powerful societal groups? Which policies best respond to these needs? At the same time, decision-makers must determine which policies are viable or can be sustained over time. This will depend on the nature of their foreign and domestic environments. How are powerful foreign and local actors likely to respond to policy alternatives? Which policies would generate the greatest opposition? To what extent would this opposition threaten the continued stability of the government?

During the 1970s, Latin American and Caribbean decision-makers considered economically nationalist policies to be both necessary and viable. On the one hand, leaders felt existing trade and investment regimes limited resource flows to the state. While the global market undervalued their exports, their nation's human and natural resources were exploited by transnational corporations. Protectionist trade and investment policies were thus introduced in order to gain greater sovereignty over the national economy and increase resource flows into the state treasury.

At the same time, the perceived need for economically nationalist policies was not, in itself, a sufficient condition for the adoption of such policies. Decision-makers also had to believe that challenges to global liberalism were viable; that there was the necessary political space to fundamentally restructure their foreign trade and investment relations. Positive foreign accounts at home seemed to suggest that these nations were in a position to reorder traditional economic relations. Moreover, changes in the global system seemed to present these nations with an unprecedented opportunity to institute protectionist measures. Changes in the international distribution of power limited the North's ability to defend the liberal order. Recession, inflation and unemployment in the major industrial nations demonstrated the fragility of their economies.

At the same time, Southern nations appeared to be on the ascendancy. Global resource scarcities seemed to enhance the bargaining strength of these nations as many resources critical for maintaining industrial economies were located in the South. Southern nations were also beginning to present a united front in global forums. Their common historical experience and position in the international division of labor was helping to bring these nations together. The unified and coordinated actions of developing nations seemed to constitute a new force in the global arena.

In short, decision-makers felt economically nationalist policies were both necessary and viable during their first administrations. While protectionist trade and investment policies would increase resource flows to the state, positive foreign accounts and a shift in the international balance of forces would guarantee the long-term viability of such policies.

Since this period, Latin American and Caribbean decision-makers have undergone a fundamental reassessment of the necessity and viability of economically nationalist policies. The 1970s demonstrated the extent to which these nations remained extremely dependent on foreign markets, capital, and technology. Positive foreign accounts often disguised the structural weakness and economic dependence of each nation. Internationally, the Northern states demonstrated their ability to meet the changing imperatives of the global system. The renewed economic strength of the North allowed them to reassert hegemony over the Southern nations and deflect challenges to the liberal order. The third world campaign for a new international economic order ended largely in failure.

The shift from economic nationalism to neo-liberalism can be best understood through an approach which focuses on state imperatives and decision-maker choice. Political elites have reassessed which policies are necessary and viable given the structure and evolution of their foreign and domestic environments. While economically nationalist policies were considered both necessary and viable during the 1970s this is no longer the case. Domestic political imperatives and the constraints of the external environment have convinced leaders throughout the region that there is virtually no alternative to the liberal reforms.

In short, decision-makers are clearly subject to powerful environmental constraints. However, these constraints operate at the cognitive level: which policies are considered both necessary and viable are based on decision-maker perceptions of their foreign and domestic environments. This perspective differs from a purely structural argument. While state policies are clearly influenced by environmental forces they are not simply a reflection of these forces. Rather, there is a reciprocal relationship between objective constraints and subjective beliefs. While decision-maker images can clearly lead to environmental change, structural factors condition these cognitive processes. Decision-maker perceptions are shaped at least in part by the actual environment in which these individuals are operating.

As such, objective and subjective approaches should not be viewed as competing or mutually exclusive perspectives; considering the policy-making role of individual decision-makers is designed to complement rather than supersede the other levels of analysis. These individuals are devising policies which reflect their perceptions of the opportunities and constraints of their structural environment. The perceptions, images, and beliefs of state decision-makers thus constitute an intervening or contributing variable in the policy-making process.

Comparative Study of Venezuela and Jamaica

Analysis of the Venezuelan and Jamaican cases is undertaken for a number of reasons. As noted above, both nations represent rather prominent examples of the shift from economic nationalism to neo-liberalism in Latin America and the Caribbean. The import-substitution and self-reliance models of the 1970s have recently given way to export promotion strategies and policies designed to promote greater integration in the global economy.

These cases also represent a unique opportunity for studying the role of state decision-makers. Because both Carlos Andres Perez, of Accion Democratica, and Michael Manley, of the Peoples National Party, were in power during both the 1970s and the period since 1989, it is possible to trace the evolution of their beliefs, and the role which these beliefs have played in structuring state policies. The policy shift which has occurred in both nations can not simply be attributed to changes in leadership. The fact that Perez and Manley have been in power during almost the exact same time periods enhances the comparability of the cases. Other intervening variables, most notably the structure of the international system, are effectively neutralized.

The comparative method is a heuristically useful framework for analysis when either two generally similar countries exhibit different policy outcomes or when two generally different countries exhibit similar policy outcomes. In the first case the researcher attempts to uncover some important difference which accounts for policy divergence and in the second case the researcher looks for some important similarity which might explain policy agreement.

A comparative study of policy-making under the Perez and Manley regimes reflects this second approach. Although these two nations differ in a number of important historical, political, economic, and cultural respects, their trade and investment policies have been remarkably similar during the two time periods in question. As such, this project is able to use the similarities and differences between these two countries, and the remarkable coincidence in time periods, to draw causal associations which would not be possible with a single case.

This project is organized as follows. The second chapter considers past approaches to the study of economic policy-making in the developing world, beginning with early personality studies and then turning to international and domestic structural approaches. I then present my own perspective which, while drawing upon these past approaches, attempts to highlight the independent role of the state and state decision-makers.

Chapter three turns to the empirical sections of this project, outlining the foreign economic policies during the first and second Perez and Manley administrations. The nationalist trade and investment policies of the 1970s are contrasted with today's neo-liberal agenda.

Chapters four through six consider alternative explanations for each nation's foreign economic policies and the changes in these policies overtime. The chapters are structured around the three levels of analysis which have dominated past scholarship. International structural explanations are first considered in chapter four. Although this approach is found to have some plausibility, as both Venezuela and Jamaica were in a relatively stronger position vis a vis foreign economic actors in the early 1970s than they are today, it is unable to fully account for policy choice in each nation, particularly during the latter years of their first administrations.

Chapter five considers the domestic structures argument. Again, at first glance there is some plausibility to this perspective, particularly with respect to policy choice during the earlier administrations. Both nations witnessed the emergence of at least a small domestic manufacturing sector in the post-war period. At the same time, close analysis of the social and economic order of each nation, and how this order has changed over time, also reveals important weaknesses to this approach. It is unable to account for policy choice during both the 1970s and the 1990s.

The shortcomings evident in both structural explanations highlight the need to rethink those forces which condition state policy. This project focuses on the role of the state and state decision-makers in each nation. Chapter six begins with an analysis of the political systems in Venezuela and Jamaica, with particular focus placed on the role of the state in the production and distribution of resources and the degree to which decision-making powers are concentrated in the hands of the preeminent leader. I then turn to the individual role played by Perez and Manley and examine how their perceptions and beliefs have conditioned state policy during the two time periods in question.

In the last chapter I draw some conclusions from this study and consider their implications for the other nations of Latin America and the Caribbean. Foreign economic policy is an important component of the overall development strategy of the nations in this region. The way in which these nations structure their relations with the outside world has significant consequences for their long-term development prospects. Gaining greater insight into the foreign economic policy-making process itself is the objective of this project.

Chapter Two

## ECONOMIC POLICY-MAKING IN THE DEVELOPING WORLD

The movement from economically nationalist to neo-liberal policies in Venezuela and Jamaica has been fairly dramatic. Both nations have jettisoned previous attempts to shield their local economies from external forces and are now creating incentives to expand foreign trade and investment. This chapter presents a theoretical framework for understanding economic policy choice in these two nations. I will begin with a brief survey of past scholarship in this field. Early personality studies, which attributed a considerable degree of policy-making autonomy to decision-makers, are considered first. I then turn to a discussion of international and domestic structural approaches, analyzing both their theoretical plausibility and empirical strength. My own perspective, which focuses on the role of the state and state decision-makers, is then outlined. The last section employs this perspective to better understand the movement from economic nationalism to neo-liberalism in Latin America and the Caribbean, thus setting the stage for closer analysis of the Venezuelan and Jamaican cases.

Personality Studies

Early studies of policy-making in the developing world focused almost exclusively on the role of individual decision-makers. As one researcher put it, "the only consensus in the literature was the predominance of the leader's personality dispositions and other psychological factors in reaching decisions."[1] Because decision-makers were thought to have almost complete autonomy over policy choice, state behavior was considered the personal prerogative of "charismatic" leaders.[2] Scholars thus set out to examine the personality dispositions, decisional styles, beliefs and values of key policy-makers.

Historical, social, and cultural factors were all thought to contribute to a highly individualistic nature of policy-making in the developing world. It was often argued that the historical experience of these nations had led to a concentration of power in the executive branch. Scholars pointed to the authoritarian, hierarchical, and centralized

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[1]Bahgat Korany. "Foreign Policy Decision-Making and the Third World: Payoffs and Pitfalls," in B. Korany, (ed.) How Foreign Policy Decisions are Made in the Third World. (Boulder: Westview, 1986), p. 8.

[2]As I. W. Zartman put it "his anger and his ardor, his whims and his convictions become the mode of the country's policy and his friendships and acquaintances mark its limits". International Relations in New Africa. (Englewood Cliffs: Prentice Hall, 1966B), p. 65. See also his "Characteristics of Developing Foreign Policies," in William Lewis, (ed.) French Speaking Africa: The Search for Identity. (New York: Walker and Co, 1965), pp. 179-193.

nature of political institutions during the colonial period. Rather than fostering public participation in government, these institutions were intentionally designed to exclude large sectors to civil society from the affairs of state.[3] These institutions were then inherited by the newly independent states and post-colonial rulers were able to enjoy a virtual monopoly of political power.

The predominance of "presidentialism" in Latin America, for example, was frequently traced to the authoritarian rule of the colonial period. Spanish colonialism instituted a system of absolutism and social hierarchy in which decision-making flowed exclusively from the top down. This legacy of executive dominance is reflected in Latin American constitutions today. The chief executive is frequently able to exercise a broad collection of administrative and judicial powers. Moreover, the executive has typically been granted legislative powers allowing him to issue decree laws covering a broad range of issues.[4]

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[3]The "exclusionary" nature of these regimes was frequently contrasted with the "inclusionary" political systems in the advanced states. See S. E. Finer. The Man on Horseback: The Role of the Military in Politics. (London: Pall Mall, 1962) for example, where the political institutions of these nations were considered "relatively crude" and thus more likely to succumb to strong government.

[4]Albert Hirschman's early writings reflected this perspective. For Hirschman, the lack of public pressures on state elites affords greater decision-making autonomy and accounted for the symmetry between their beliefs and policy choice. See especially Journeys Toward Progress. (New York: The Twentieth Century Fund, 1961), p. 231, and "Ideologies of

Executive dominance was also stressed in other parts of the developing world. Scholars frequently associated the long tradition of autocracy in Africa and Asia with colonial rule. Post-colonial policies were thus attributed to the attitudes and orientations of a small segment of the "bureaucratic elite" or the "personal rule" of absolute sovereigns.[5] Public participation in foreign policy-making was virtually

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Economic Development in Latin America," in Hirschman (ed.) Latin American Issues: Essays and Comments. (New York: Twentieth Century Fund, 1961). This approach is also evident in Carlos Astiz, Latin American International Politics: Ambitions, Capabilities, and National Interest of Mexico, Brazil and Argentina. (Notre Dame: University of Notre Dame, 1969).

[5]See for example P. J. Vatikiotis' study of policy-making under Nasser, ("Foreign Policy of Egypt," in Roy Macrides (ed.) Foreign Policy and World Politics. Englewood Cliffs: Prentice Hall, 1962, pp. 335-359). Nasser, he argued, was not "constitutionally responsible to any institutional checks upon his authority." (p. 341). These views were echoed by A. I. Dawisha. ("The Principle Decision-Maker in Foreign Policy: The Case of Nasser of Egypt," International Relations. Vol. 4, No. 4, November 1973, pp. 400-424), who argued that a strong and dominant leader particularly in an authoritarian system can transfer his governments near monopoly on foreign affairs to his own person. Similarly, B. Boutrous-Ghalli ("The Foreign Policy of Egypt," in J. E. Black and K. W. Thompson, (eds.) Foreign Policy in a World of Change. New York: Harper and Row, 1963, pp. 319-348), found the formulation of Egyptian foreign policy to be "strictly the prerogative and sole responsibility of the chief executive." "The extent to which the executive is guided by the council of his principle associates .. is a matter of personal choice made in light of the interests of the state." (p. 320). This perspective can also be found in Robert Lystad. "Cultural and Psychological Factors" in Vernon McKay, (ed.) African Diplomacy: Studies in the Determinants of Foreign Policy. (New York: Praeger, 1966), pp. 91-118.

non-existent.[6] Such policies were considered largely a function of groups that were peculiarly distinct from and unrepresentative of most other social groups.[7]

Michael Brecher, for example, attributed India's foreign policy almost exclusively to the beliefs and values of Nehru.[8] Similarly, Marvin Ott considered Malaysian foreign

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[6]Doudou Thiam and Vernon McKay also pointed to the importance of the executive in African states. Because decision-makers were often unable to obtain sufficient information and advice, they simply relied on their own intuition. See Thiam, The Foreign Policy of African States: Ideological Bases, Present Realities, Future Prospects. (New York: Praeger, 1965) and McKay, "International Conflict Patterns," in V. McKay, (ed.) African Diplomacy: Studies in the Determinants of Foreign Policy. (New York: Praeger, 1966), pp. 1-23 and Africa in World Politics. (New York: Harper and Row, 1963).

[7]Both W. Scött Thompson (Ghana's Foreign Policy 1957-66: Diplomacy, Ideology and the New State. Princeton: Princeton University Press, 1969) and William J. Mahoney, Jr. ("Nkrumah in Retrospect," Review of Politics. Vol. 30, 1968, pp. 246-250) equated Ghana's early foreign policy with Nkrumah's foreign policy. As Thompson put it, "... it was Nkrumah's characteristics and desires, his perception of how the international system worked, and his reaction to external events," which explained virtually all foreign policy decisions. (p. 415) For Mahoney, every facet of government and society became the tools of Nkrumah's "whims and fantasies." (p. 247) Similarly, John Howell ("An Analysis of Kenyan Foreign Policy," Journal of Modern African Studies. Vol. 6, No. 1, May 1968, pp. 29-48) linked Kenya's foreign policy with leaders taking independent decisions-ideologically based.

[8]Michael Brecher. The New States of Asia, A Political Analysis. (London: Oxford University Press, 1963). In his earlier work, Nehru: A Political Biography. (London: Oxford University Press, 1959), Nehru was described as "the philosopher, architect, the engineer and the voice of his country's policy toward the outside world." Although Nehru was not considered entirely free from the influence of individuals and institutions, his personality and his views had such an overpowering effect, Brecher concluded, that

policy to be the virtual prerogative of a small stable elite, largely impervious to popular political pressures.[9] The result was a decision-making process characterized by informal conversations, and personal, as opposed to institutional, relationships. For Ott, policy-making was largely "intuitive" rather than the result of a disciplined intellectual process.[10]

Decision-maker autonomy was also considered a function of various societal characteristics. People in the developing areas, it was argued, identified more with their local community or village than with the nation as a whole.[11] In addition, given fairly low levels of education and literacy the average person had little knowledge or interest in foreign affairs. Decision-making was thus largely monopolized by a few people in the capital cities who enjoyed a wide latitude

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foreign policy may be properly termed a "private monopoly." (p. 564). A similar perspective can be found in James Scott. Political Ideology in Malaysia - Reality and Beliefs of an Elite. (New Haven: Yale University Press, 1968).

[9]Marvin Ott. "Foreign Policy Formulation in Malaysia." Asian Survey, Vol. 12, (March 1972), pp. 225-241.

[10]Ott, Ibid., p. 226.

[11]Werner Levi. The Challenge of World Politics in South and Southeast Asia. (Englewood Cliffs: Prentice Hall, 1968), pp. 13-14. In a later article ("Ideology, Interests, and Foreign Policy," International Studies Quarterly. Vol. 14, No. 1, March 1970, pp. 1-31) he recognized that a leader is bound by internal and external constraints.

in determining policy.[12]

Lastly, scholars often attributed executive dominance to the political culture of developing nations. There was a strong tendency, they argued, for people in these areas to give their loyalty and allegiance to the political leader rather than to the formal political institutions of the nation.[13] This tendency was reinforced by the decolonization process itself as various authors pointed to a need for personal leadership at times of rapid and all persuasive change.[14]

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[12]Ishtiao Qureshi's study of policy-making in Pakistan ("The Foreign Policy of Pakistan," in J. E. Black and K. W. Thompson, (eds.) Foreign Policy in a World of Change. New York: Harper and Row, 1963, pp. 453-477) attributed the exclusive nature of state decision-making to the limited "sophistication" of public opinion. Russell Fifield's analysis of Southeast Asia (The Diplomacy of South East Asia, 1945-1958. New York: Harper, 1958) also stressed the absence of an articulate public opinion.

[13]Finer, 1962, op. cit.

[14]Bahgat Korany. Social Change, Charisma, and International Behavior: Toward a Theory of Foreign Policy-Making in the Third World. (Leiden, Holland: Sijthoff, 1976). In his study of politics in Grenada, Archibald Singham (The Hero and the Crowd in Colonial Polity. New Haven, Yale University Press, 1968) argued that a "hero-messiah" leader is characteristic of the late colonial era and often carries over to the early years of independence. Norman Bailey (1967, op. cit.) and Michael Brecher (1963, op. cit.) found foreign policy making to be based on charisma and skillful manipulation of a relatively limited number of key power groups. Similarly, Ali Mazrui (Towards a Pax Africana: A Study of Ideology and Ambition. Chicago: University of Chicago Press, 1967A and On Heroes and Uhuru Worship: Essays on Independent Africa. London: Longmans, 1967B) attributed personal rule in Africa to a political culture which accorded exaggerated deference to the "great man." This was especially prevalent in the immediate post-colonial period when leaders

In Latin America, centuries of rural socio-economic patterns characterized by the "hacienda" land tenure system and the dominance of powerful "patrons," it was argued, created a national culture where the president came to be viewed as the country's preeminent patron. "Caudillismo," the personal rule of charismatic individuals usually backed by military force, became a fundamental feature of Latin American politics. The political order was largely a function of the actions of rival caudillos who sought to unify the country through authoritarian rule. In the absence of other institutional symbols of legitimacy, a leader's authority inevitably rested on purely individual attributes.[15] The presidentialism evident in many Latin American countries today is thus considered a legacy of their historical past.

Because the foreign policies of developing nations were thought to closely correspond with the beliefs and motivations of a small elite, the role played by top decision-makers was the central focus of scholarship. Over time, however, these personality studies exhibited a number of weaknesses. Most

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often led the struggle for independence. For Mazrui, the leader was viewed as the "human embodiment" of the new state or the "personification of national identity," (1967B, p, 21).

[15]See Hugh Hamill. (ed.) Caudillos: Dictators in Spanish America. (Norman: University of Oklahoma Press, 1992) and Norman Bailey. Latin America in World Politics. (New York: Walker, 1967). Again, Latin American culture was not considered unique in this respect. Charismatic leaders, for example, were long considered more important in African and Asian societies than political institutions. (See Vatikiotis, 1962, op. cit.)

importantly, scholars questioned the degree of autonomy which decision-makers actually had in formulating their nation's external relations. While these leaders may have had some room to maneuver, it was argued, their choices were largely limited by "structural" or "environmental" constraints.

## External Constraints on Policy-Making

Personality studies were initially faulted for failing to consider external constraints on foreign policy-making. Given their relatively weak position in the inter-state system, and their subordinate position in the world economy, these states were thought to have very little autonomy in structuring their external relations; their choices were largely limited by external environment.

International structural perspectives stressed asymmetries in the distribution of capabilities in the global system. Relying largely on a bargaining model, weak or dependent states were expected to "comply" or "acquiesce" with the interests, preferences and policy prescriptions of larger, more powerful foreign actors. As Adrienne Armstrong put it:

> ... a nation with great economic resources has more influence on events in the international system and greater security against pressure from other nations than does a nation with few economic resources. The nation with limited economic resources is more vulnerable to pressure from other

nations and more likely to comply under stress.[16]

The relationship between "dependence" and policy became a central focus in the study of developing nations[17] Reference to "dependence"[18] here is distinct from the "dependency" approach reviewed later in this chapter.[19] Dependence is defined as being "significantly affected" by foreign transactions,[20], reflecting the "reliance" ... "of one actor

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[16]Adrienne Armstrong. "The Political Consequences of Economic Dependence," Journal of Conflict Resolution, Vol 25, No. 3, (1981), p. 401.

[17]The link between economic dependence and political power can be traced back to the writings of Albert Hirschman, (National Power and the Structure of Foreign Trade. Berkeley: University of California, 1945). For Hirschman, the volume and distribution of a nation's foreign trade is a potential source of economic vulnerability. Dependent countries are those which are highly reliant on world trade and unable to easily shift trade away from a dominant country or other trading partners. For Hirschman, the ability of one government to threaten to interrupt its trade with another was considered an "effective weapon in the struggle for power." (p. 17)

[18]Focus was placed on the degree and form of dependence on foreign trade, the concentration of exports, the degree of reliance on inputs, raw materials and energy, the degree of dependence on external flows of investment and technology, the degree of reliance on external financial flows, the level and structure of the external debt, and the level of international reserves.

[19]For a detailed analysis of the conceptual and methodological differences between the "dependence" and "dependency" perspectives see James Caporaso, "Dependence, Dependency and Power in the Global System: A Structural and Behavioral Analysis," International Organization. Vol. 32, No. 1. (Winter 1978), pp. 13-43.

[20]Neil Richardson "Economic Dependence and Foreign Policy Compliance: Bringing Measurement Closer to Conception," in Charles Kegley and Patrick McGowan, (eds.) The Political Economy of Foreign Policy Behavior. (Beverly Hills: Sage,

on another, but not vice versa,"[21], or "asymmetrical interdependence" between nations, that is the difference between A's reliance on B and B's reliance on A.[22]

Compliance was a key element of this approach; it reflected "...the ability of one nation to induce other nations to follow lines of policy which they might otherwise not pursue..."[23] or the ability of one country to convince another "...to adopt a policy position contrary to its original intent."[24] Compliant behavior was thus considered "deferential" or "behavior that accedes to the wishes of others."[25] Strong states were thought to obtain the compliance of their dependencies through the promise or actual delivery of certain benefits to their economic dependencies, (such as military or economic assistance or trade preferences), or through the threat or actual implementation

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1981), pp. 87-110.

[21]Tom Travis. "A Comparison of Global Economic Imperialism of Five Metropoles," in Charles Kegley and Patrick McGowan, (eds.) The Political Economy of Foreign Policy Behavior. (Beverly Hills: Sage, 1981), pp. 165-190.

[22]Klaus Knorr. "International Economic Leverage and Its Uses," in Klaus Knorr and F. N. Trager. (eds.) Economic Issues and National Security. Kansas: Allen Press. 1977, p. 103; Caporaso, op. cit., 1978; and Adrienne Armstrong, op. cit., 1981.

[23]Armstrong, 1981, op. cit., p. 401.

[24]Richardson, 1981, op. cit., pp. 89-90.

[25]Neil Richardson. Foreign Policy and Economic Dependence. (Austin: University of Texas, 1978), p. 70.

of some form of punishment, (such as economic sanctions or military action). The foreign policy behavior of dependencies was viewed as "partial payment in exchange for the maintenance of benefits they derive from their economic ties to the dominant country."[26].

Empirical studies generally confirmed these basic assumptions. Developing nations were found to be exceedingly vulnerable to external pressure and coercion,[27] and to assume a passive, subordinate role in international affairs[28]. Neil Richardson provided possibly the most extensive analysis of the link between economic dependence and political compliance.[29] "... despite the presence of numerous motivations and pressures from several sources," he concluded, "the foreign policy behavior of a dependent country will be more or less in accord with the preferences of the

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[26]Richardson, Ibid., 1978, p. 64.

[27]David Vital. The Inequality of States: A Study of Small Powers in International Relations. (Oxford: Claredon Press, 1967).

[28]Patrick McGowan and Klaus-Peter Gottwald, "Small State Foreign Policies: A Comparative Study of Participation, Conflict, and Political and Economic Dependence in Black Africa," International Studies Quarterly, Vol. 19, No. 4, (December, 1975), pp. 469-500. The authors employed regression and path analysis to study thirty states during the mid-1960s. They concluded that personalities and ideologies are of only secondary importance in foreign policy formation compared with the constraints of the structural environmental.

[29]Richardson, 1978, op. cit.

country that dominates its economic life."[30]

Theories of dependence also exhibited a number of important weaknesses. To begin, it was extremely difficult to define and measure the "dependence" of one nation upon

[30]Ibid., 1978, p. 69. See also Richardson and Charles Kegley Jr., "Trade Dependence and Foreign Policy Compliance: A Longitudinal Analysis," International Studies Quarterly, Vol 24, No. 2, (June 1980), pp. 191-222, where countries with trade dependence on the U.S. were found to be more in agreement with the U.S. on international issues than non-dependent countries; David Jodice, "Sources of Change in Third World Regimes for Foreign Direct Investment: 1968-1976," International Organization. Vol 34, No. 2, (Spring 1980), pp. 177-206, which documents an inverse relationship between foreign aid dependence and propensity toward expropriation; Michael Dolan, et al. "Foreign Policies of African States in Asymmetrical Dyads," International Studies Quarterly, Vol 24, No. 3, (September 1980), pp. 415-449, where "structural asymmetry" is found to be an important "scope" variable, which conditions and places limits on the choices of subordinate states; J. E. Harf et. al. "Systemic and External Attributes in Foreign Policy Analysis," in James Rosenau, (ed.) Comparing Foreign Policies. (Beverly Hills: Sage, 1974), pp. 235-250, where foreign policy choice is linked to political and economic structural attributes of the global environment and David Kay, "Instruments of Influence in the United Nations Process," in David Kay, (ed.) The United Nations Political System. (New York: John Wiley, 1967). Various researchers also linked United Nations votes to economic dependence. See especially E. R. Wittkopf, "Foreign Aid and U. N. Votes: A Comparative Study," American Political Science Review Vol. 67, No. 3, (September 1975), pp. 868-888; James Lee Ray, "Dependence, Political Compliance, and Economic Performance: Latin America and Eastern Europe," in Charles Kegley and Patrick McGowan, (ed.) The Political Economy of Foreign Policy Behavior. (Beverly Hills: Sage, 1981), pp. 111-136; John Odell, "The Outcomes of International Trade Conflict: The U.S. and South Korea, 1960-1981," International Studies Quarterly, Vol. 29, No. 3, (September 1985), pp. 263-286; and Bengt Sendelius. "Interdependence and Foreign Policy," Cooperation and Conflict. Vol. 15, No. 4, pp. 187-208.

another.[31] Dependence was reflected in a myriad of different social, economic, and political interrelationships which varied considerably from one context to the next.[32] Moreover, this perspective was often unable to account for instances in which there appeared to be an inverse relationship between economic weakness and policy acquiescence. In some respects, those nations which are in a relatively stronger external position might be less likely to challenge the existing order, since they presumably benefit more from this order those nations in a weaker position.

Another problematic aspect of this perspective concerns the question of vulnerability. It is unclear whether vulnerability alone assures the political compliance of weak states. Economic coercion, for example, is generally only successful in those cases where the punishment involved exceeds the cost of complying with the demand of the coercing

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[31]Vital (1967, op. cit.) for example, refers to a number of factors including the rate and level of development, the value of foreign trade relative to total economic activity, and the variety of a nation's domestic resources.

[32]Clair Karl Blong, (<u>External Penetration and Foreign Policy Behavior</u>. Doctoral Dissertation, University of Maryland, 1975), proposes disaggregating dependence into four sub-categories: economic, military, political, and cultural. Kenneth Menkhaus and Charles Kegley, Jr. ("The Compliant Foreign Policy of the Dependent State Revisited," <u>Comparative Political Studies</u>. Vol. 21, No. 3 October, 1988, pp. 315-346) differentiate among different types of dependence, such as export, import, aid, investment, debt, technological, or currency dependence.

country.[33] This perspective also assumes the existence of relatively flexible policy instruments which can be adjusted by a dominant state to extract compliance, a condition which has rarely been met.

In some respects, dependence may promote and permit foreign policies designed to lessen dependence. This might be due to both disparities of attention or resolve which characterize asymmetrical relationships and often provide the dependent country with more room to maneuver than might be generally expected.[34] In fact, some researchers found an inverse relationship between economic dependence and political compliance. Weakness and vulnerability, it was argued, might actually increase the likelihood that a state will engage in

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[33] See for example, Knorr, 1977, op. cit., p. 106. Bruce Moon ("Consensus or Compliance? Foreign Policy Change and External Dependence," International Organization Vol. 39, No. 2, Spring 1985, pp. 297-329), put forward the following three conditions for achieving the compliance of weak states: the powerful state must have preferences about the foreign policy behavior of weak states sufficiently compelling to warrant the expenditure of financial and diplomatic resources, the powerful state must have conditioning tools (rewards or punishments) which can be used to induce particular behavior from weaker states, and these conditioning tools must be sufficiently flexible to allow the stronger state to calibrate rewards and punishments to the weaker states degree of compliance.

[34] Albert Hirschman, "Beyond Asymmetry: Critical Notes on Myself as a Young Man and Some Old Friends," International Organization. Vol. 32 (Winter 1978), pp. 45-50; and Ole Elgstrom. "Negotiating with the LDCs: Situation and Context," Paper presented at the International Studies Association Annual Conference, Washington, DC, April 14-18, 1987.

high risk, threatening, or hostile behavior.[35] Relatively weak or dependent states sometimes challenged the liberal international regimes.[36]

For Stephen Krasner developing nations challenged global liberalism in the past precisely because they were so vulnerable to external shocks and pressures.[37] As such, it was quite natural for these states to propose "authoritative" international regimes where political authorities rather than private actors determine the allocation of goods and capital. "Authoritative" regimes, which would provide more stable and predictable transaction flows, would limit the power of the North by extending state control over a broader domain of economic activities.

This perspective was echoed by a number of other researchers. David Jodice argued that economic performance failure actually increased the likelihood of foreign investment expropriation.[38] Governments which perceive a

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[35]Maurice East, "Size and Foreign Policy Behavior: A Test of Two Models," World Politics. Vol. 25, No. 4, (July, 1973), pp. 556-576.

[36]See Thomas Biersteker's recent study Multinationals, The State, and Control of the Nigerian Economy. (Princeton: Princeton University Press, 1987) which examines indigenization schemes in Nigeria.

[37]Stephen Krasner, Structural Conflict: The Third World Against Global Liberalism. (Berkeley: University of California Press, 1985).

[38]Jodice, 1980, op. cit. This conclusion was based on a cross national analysis of fifty countries between 1968 and 1976.

direct threat to their domestic legitimacy, he suggested, often felt compelled to strike out at a foreign enemy. Similarly, J. Hartman stressed the degree of political autonomy a peripheral state can achieve despite economic dependence on the center.[39] For Kenneth Menkhaus and Charles Kegley weak states can obtain some concessions by playing one dominant country off another.[40]

International structural approaches were also criticized on another account. By focusing almost exclusively on the international distribution of power, these approaches tended to overestimate the affect of external forces and underestimate the influence of internal forces. Policy choice was reduced to external determinants; the role played by domestic factors in conditioning state policies, and the historically specific and diverse internal character of these nations, were largely neglected.

## Domestic Sources of Foreign Policy

The theoretical weaknesses and mixed empirical results of international structural approaches led researchers to consider alternative explanations for economic policy choice

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[39]J. Hartman "Economic Dependence and Foreign Policy," African Review. Vol. 7, No. 3-4, (1977), pp. 70-91. This article includes a detailed case study of foreign policy-making in Tanzania. Hartman notes, however, that any autonomy achieved by Tanzanian leaders did come at considerable cost.

[40]Menkhaus and Kegley, 1988, op. cit.

in the developing world. Scholarly inquiry was redirected toward concrete historical analysis of the state - society relations within developing nations.

This perspective was based on two fundamental assumptions: that all nations are composed of conflicting social coalitions and economic groups which compete over the allocation of scarce resources and that no state is immune from this domestic competition. Because governing elites are at least partially dependent on maintaining the support of politically powerful domestic actors, groups, and classes, the internal distribution of power was considered a key determinant of state behavior. State authority and legitimacy was directly linked to such support. The state was thus considered a locus of political struggle and state policies were thought to reflect the relative strength of competing social groups or actors.

The societal origins of state policies were considered particularly important in the third world.[41] Given severe resource scarcities, it was argued, internal conflicts were particularly intense as a large number of groups and individuals jostled over a very limited amount of goods and

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[41]Robert Rothstein, "Foreign Policy and Development Policy," International Affairs, Vol. 52, No. 4, (October 1976), pp. 598-616. Although Rothstein conceded that there was often a foreign policy consensus right after independence, (largely around economic nationalism, anti-colonialism, non-alignment), he suggests that this has since broken down in many cases as domestic conflicts became mirrored in the foreign policy debate.

services. In addition, given the disruptive effects of the struggle for independence and the relative "newness" of these nations, class relations were often considered highly unstable, with no single class able to exert complete hegemony over the other classes.[42] Close analysis of the internal character of the post-colonial state, and its relations to socially dominant groups and classes, was thus considered essential.

For developing nations, the relative power and influence of two key economic groups, the traditional commercial agro-export elite and the domestic industrial class, was considered particularly important. Foreign economic policies were generally expected to reflect the interests and preferences of whichever faction of capital was more dominant at any given time.

In those cases where the commercial-export sector was

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[42]Roger Murray, ("Second Thoughts on Ghana," New Left Review, No. 42, March/April 1967, pp. 25-39), argued that post-colonial states have "unformed" classes and that the class character of the post-colonial state is "undetermined." As he put it, "the post-colonial state has simultaneously to be perceived as the actual instrument of mediation and negotiation with external capital and as the possible instrument of a continuing anti-imperialist and socialist revolution. In this setting, the 'relative autonomy' of the ruling 'petty bourgeois' ... stratum becomes a critical issue..." (p. 31) John Saul, (The State and Revolution in Eastern Africa. New York: Monthly Review, 1979), also referred to the "indeterminate" nature of state; the state is something of an unpredictable quantity which could go either way. He cautions, however, that imperial preeminence sets significant limits on which classes can permeate the state.

dominant (agrarian or mineral export economies) the state was largely dependent on revenues generated by this sector. As such, it was expected to favor an export-led development strategy which placed few restrictions on transnational access to local raw materials, markets and investment opportunities. In fact, the state was expected to channel national resources to foreign interests, providing investment funds, low cost infrastructural facilities, and other services to foreign investors.

This perspective can be found in the writings of "dependency" theorists. For these scholars, third world economies were thought to be so thoroughly penetrated by transnational forces that a domestic elite emerged whose interests coincided with those of foreign rather than domestic actors. Because this elite derived its power from maintaining close external ties with elites of industrialized states, dependency theorists pointed to an entrenched political alliance between foreign interests and native "compradors."[43]

For Paul Baran post-colonial governments were essentially the same as the former colonial administrations; although

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[43]This term is a Portuguese derivation and literally means buyer or middleman. It was used in the nineteenth century to describe the local commercial agents of foreign companies. Later it came to refer to any group whose interests lead it to cooperate with foreigners seeking to dominate their country economically. The exact composition of the comprador class can include local merchants, military leaders, agrarian oligarchs, or the indigenous managers of transnational corporations.

these states were no longer under the political control of the advanced states, the local comprador managers assured continued economic control.[44] Similarly Samir Amin argued that the global system was reproduced by an international alliance between the elites of the dominant nations and its subordinate allies:

> [t]here is no really mature independent national state serving ... local classes, but only administrations serving monopoly capital, directly (colonial case) or indirectly (semi-colonial case).[45]

For his part, Andre Gunder Frank viewed Latin America elites as willing to sacrifice indigenous development for Western interests.[46]

Similar arguments have been made with respect to the African context. For Frantz Fanon the new leadership's "mission has nothing to do with transforming the nation; it consists ... of being the transmission line between the nation and a capitalism ... which today puts on the mask of neo-colonialism.[47]" The "national middle class," he remarked,

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[44]Paul Baran The Political Economy of Growth. (New York: Monthly Review, 1957). See especially pages 205-218.

[45]Samir Amin, "Self Reliance and the New International Economic Order," Monthly Review, Vol. 29, No. 3 (July/August, 1977), p. 7.

[46]Andre Gunder Frank. Lumpenbourgeoisie: Lumpendevelopment: Dependence, Class and Politics and Latin America. (New York: Monthly Review Press, 1972).

[47]Frantz Fanon, Wretched of the Earth. (New York: Grove Press, 1963), p. 152.

takes on the role of "manager for Western enterprise."[48] Amilcar Cabral referred to a "pseudo-bourgeoisie," controlled by the ruling class of the dominating country, which discriminates against local producers,[49] Colin Leys pointed to a politically powerful "auxiliary bourgeoisie" entirely subservient to the needs and interests of metropolitan capital,[50] Issa Shivji wrote of a "bureaucratic bourgeoisie" which used state power against the commercial, working class and peasant sectors and in favor of foreign capital,[51] John Saul linked state actions with protecting the interests of international capital with whom it remains intimately linked,[52] and Claude Meillassoux found that the "bureaucratic class," instead of striving for real independence, only serves as an instrument of Western

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[48]Fanon, Ibid., 1963, p. 154.

[49]Amilcar Cabral, Revolution in Guinea: An African Peoples Struggle. (New York: 1969), p. 101. Cabral recognized, however, that the state could act on behalf of workers and peasants. Which direction the state went depended on whether the petit bourgeoisie was part of a revolutionary movement.

[50]Colin Leys, Underdevelopment in Kenya: The Political-Economy of Neo-Colonialism 1964-71. (London: Heinemann, 1974).

[51]Issa Shivji, Class Struggles in Tanzania. (New York: Monthly Review, 1976).

[52]John Saul, "The State in Post-Colonial Societies: Tanzania," in Ralph Miliband and John Seville, (eds.) The Socialist Register. (London: Merlin Press, 1974), pp. 349-372.

interests.[53]

At the same time, this "comprador" model was not considered universally valid. A number of scholars, both conventional and Marxist, argued that, while the commercial/transnational sector may have initially dominated post-colonial societies, it has since gone into a decline. At the same time an independent and autonomous industrial or manufacturing class, with interests which diverge from those of transnational capital, had emerged in many of these nations. The shift from a predominately export-based enclave economy to a semi-industrialized economy thus led to a shift in the organization and structure of power. As local businesses expanded and gained greater control over the nation's capital resources, they became an increasingly important source of state revenue. By withdrawing its capital resources, this class could destabilize the social order. The state was thus expected to redefine and restructure the nation's foreign economic relations to favor local over foreign capital and protect the domestic economy from the vagaries of the world market. This, it was argued, accounted for import-substitution policies and the progressive imposition of constraints on the inflow of foreign investment.

[53]Claude Meillassoux, "A Class Analysis of the Bureaucratic Process in Mali," Journal of Development Studies, Vol. 4, No. 2 (January, 1970), pp. 97-110.

Numerous scholars set out to document this new national capitalist class.[54] In the Latin American context it was frequently argued that the penetration of foreign capital had contributed to the expansion and diversification of local productive forces.[55] For Fernando Henrique Cardoso the

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[54] This perspective is possibly best reflected in the works of scholars associated with the United Nations Economic Commission on Latin America, (ECLA). See Raul Prebisch, The Economic Development of Latin America and its Principle Problems. (New York: United Nations Economic Commission on Latin America, 1950). It can also be found in the writings of Andre Gunder Frank, (Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil. New York: Monthly Review Press, 1967); Anibal Quijano, (Nationalism and Colonialism in Peru: A Study of Neo-Imperialism. New York: Monthly Review Press. 1971); Baltazar Caravedo, (Burguesia e Industria en el Peru 1933-1945. Lima: Instituto de Estudios Peruanos, 1976); H. D. Johnson, (Political Change in Latin America: The Emergence of Middle Sectors. Stanford: Stanford University Press, 1958); and L. Ratinoff, ("The New Urban Groups: The Middle Classes," in S. M. Lipset and A. Solari, eds. Elites in Latin America. New York: Oxford University Press, 1967).

[55] See also D Jordan and A. P. Whitaker. Nationalism in Contemporary Latin America. (Glencoe, Illinois: Free Press, 1966); Fernando H. Cardoso. Empresario Industrial e Desenvolvimiento Economico. (Sao Paulo: Difusao Europeia de Livio, 1964); and Cardoso El Empresario Industrial en America Latina. (New York: United Nations Economic Commission on Latin America, 1965). In the latter work Cardoso noted the existence during Brazil's incipient industrialization of smaller industrialists unconnected with foreign capital who were actively engaged in pressuring the state toward the adoption of policies favorable to development of national industry. This perspective is also reflected in the writings of Sanford Mosk, (Industrial Revolution in Mexico, Berkeley: University of California, 1950), who examines the role of trade association in shaping policy in post-war Mexico; Ralph Lee Woodward, (Central America: A Nation Divided Second Edition, New York: Oxford University Press, 1985) who documents a division between landed oligarchy and national capital; Raymond Vernon, (The Dilemma of Mexico's Development: The Role of Private and Public Sectors. Cambridge: Harvard, 1963); and Victor Villanueva, ("The Petty-Bourgeois Ideology

"internationalization of the internal market," where multinationals invest in periphery manufactures for sale in the domestic market, spurred the development of a domestic entrepreneurial class whose interests were distinct from those of the landed oligarchy or transnational capital.[56] The accumulation of capital by this class gradually undermined the power of traditional agrarian and foreign interests. Elsewhere, Cardoso argued that the relative strength of the private sector in Argentina vis a vis Brazil accounted for Argentina's stronger restrictions on foreign capital.[57] Elizabeth Dore and John Weeks viewed the 1968 military regime in Peru as the loyal agents of the national industrial

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of the Peruvian Aprista Party," Latin American Perspectives, Vol. 4, No. 3, Summer 1977, pp. 57-76), where the emergence of a national capitalist class is thought to have shaped the ideology of Peru's APRA party.

[56]Fernando Henrique Cardoso, "Dependence and Development in Latin America," New Left Review. Vol. 74, (July/August, 1972), pp. 83-95; "Associated Dependent Development: Theoretical and Practical Implications," in Alfred Stepan. (ed.) Authoritarian Brazil: Origins, Policies and Future. (New Haven: Yale, 1973), pp. 142-176; and Cardoso and Enzo Faletto Dependency and Development in Latin America. (Berkeley: University of California Press, 1979). This perspective is also reflected in the writings of James Cypher, "The Internationalization of Capital and the Transformation of Social Formations: A Critique of the Monthly Review School," Review of Radical Political Economy. Vol. 11 (Winter, 1979), pp. 33-49, and Bill Warren, Imperialism: Pioneer of Capitalism. (London: New Left Books, 1980).

[57]Fernando Henrique Cardoso. Ideologias de la Burguesia Industrial en Paises Dependientes: Argentina y Brasil. (Mexico: Siglo XXI, 1971).

bourgeoisie against the old oligarchy.[58] For Barbara Stallings, the 1964 transition from the Alessandri administration to the Frei administration in Chile signalled a shift in power from the agrarian oligarchy to the modern industrial fraction of local capital.[59] This perspective was also advanced by scholars in other parts of the developing world.[60]

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[58]Elizabeth Dore and John Weeks, "Class Alliances and Class Struggle in Peru," Latin American Perspectives. Vol. 4, No. 3. (Summer, 1977), pp. 4-17, and "The Intensification of the Assault Against the Working Class in 'Revolutionary' Peru," Latin American Perspectives. Vol. 3, No. 2, (Spring 1976), pp. 55-83. The authors are careful to point out, however, that national capital resolves contradictions not by direct confrontation with imperial capital (which would be suicidal) but rather by negotiating a mutually profitable alliance. This is similar to the position advanced by Alec Gordon. See his "The Theory of the Progressive National Bourgeoisie," Journal of Contemporary Asia, Vol. 3, No. 2, 1973, pp. 192-203.

[59]Barbara Stallings. Class Conflict and Economic Development in Chile: 1958-1973. (Stanford: Stanford University Press, 1978).

[60]The emergence of a new national capitalist class was also championed in the African and Asian context. For Paul Kennedy ("Indigenous Capital in Ghana," Review of African Political Economy. No. 8, (January-April, 1977), pp. 21-37. and African Capitalism. (Cambridge: Cambridge University Press, 1988), the penetration of foreign capital in Ghana promoted the local acquisition of managerial and technological skills. This allowed local capital to eventually gain greater independence from foreign capital. Similarly, Nicola Swainson, ("The Rise of the National Bourgeoisie in Kenya," Review of African Political Economy. Vol. 8, (January-April, 1977), pp. 39-55. and The Development of Corporate Capitalism in Kenya 1918-1977. London: Heineman, 1980), traced the roots of an "indigenous bourgeoisie" in Kenya back to colonial times. After accumulating capital in commercial activities (eg. agricultural and land speculation), she argued, the national capitalist class gradually enter the sphere of production. This class was then able to use its connections within the Kenyan state to establish itself in direct competition with foreign firms. Colin Leys also acknowledged

State Autonomy and Regime Maintenance

Close analysis of the societal origins of state policy was an effective counter to international structural perspectives. This approach helped dissolve the image of the state as a unitary actor and illuminate the varying societal interests represented in the state. At the same time, this perspective also exhibited a number of critical weaknesses. Empirically, researchers were often unable to fully predict or explain state policies. Nations with a relatively well developed national manufacturing sector often maintained liberal policies while others with little industrialization adopted a highly nationalist posture. In addition, nations with similar domestic structures often adopted divergent

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in his later writings ("Capital Accumulation, Class Formation and Dependency - The Significance of the Kenyan Case," The Socialist Register 1978. London: Merlin Press, 1979, pp. 241-266) that an indigenous African entrepreneurial class had emerged, most notably in such areas as construction, mining, insurance, real estate, and manufacturing activities. For Leys, this class had used state power to supplant foreign capital. See also Joshua Forrest, "The Contemporary African State: A Ruling Class?" Review of African Political-Economy. No. 38, (April 1987), pp. 66-71 and Paul Lubeck (ed.) The African Bourgeoisie: Capitalist Development in Nigeria, Kenya, and the Ivory Coast. (New York: Lynne Rienner, 1987) where national capital is thought to have considerable autonomy from foreign capitalist interests. A. R. Desai (State and Society in India. Bombay: Popular Prakashan, 1975), pointed to the emergence of national bourgeoisie in India though he cautions that it often uses the rhetoric of nationalism to deceive workers and legitimize their rule; and Richard Robinson. (Indonesia: The Rise of Capital. Sydney: Allen and Unwin, 1986) pointed to a similar development in Indonesia. For a more theoretical perspective see H. D. Johnson, "A Theoretical Model of Economic Nationalism in New and Developing States," Political Science Quarterly, Vol. 80, (June 1965), pp. 169-185.

foreign economic policies and the policies of individual nations frequently varied overtime without a noticeable change in internal class compositions.

The explanatory power of domestic structures approaches is limited in a number of respects. Firstly, the division between the commercial and manufacturing sectors and between foreign and local capital is both an oversimplification and historically dated. Today's reality is considerably more complex, with a strong interrelationship existing between these two sectors. Secondly, because these approaches portray the state as passively responding to societal interests, they fail to recognize the often independent and autonomous role of the state. In fact, economically nationalist policies have frequently been designed to advance state rather than private sector interests. Lastly, because these approaches attribute state policies exclusively to the constraints of the structural environment, the independent and often decisive role played by individual decision-makers in the policy-making process is largely ignored.

This project places the state and state decision-makers at the center of analysis. A state centric approach is especially important in the Latin America and Caribbean context given the long tradition of state intervention in the economy and the preponderance of clientelist political systems.

Various scholars have emphasized the independent role of the Latin American state.[61] In recent years, scholarly research on the developing world has placed particular emphasis on the independent or autonomous interests of the state, interests which diverge from the demands of the most powerful groups in civil society. In other words, the state apparatus does not simply reflect societal characteristics and preferences but is a key actor in its own right with its own

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[61]See for example, Fernando H. Cardoso, Empresario Industrial e Desenvolvimento Economico no Brasil, (Sao Paulo: Difusao Europeia de Livio, 1964); Anibal Quijano, Nationalism and Colonialism in Peru: A Study of Neo-Imperialism, (New York: Monthly Review Press, 1971); James Petras, "The Peripheral State: Continuity and Change in the International Division of Labor," Journal of Conflict Resolution, Vol. 12, No. 4, (1982), pp. 415-433 and "State Capitalism and the Third World," Journal of Conflict Resolution, Vol. 6, No. 4, (1976), pp. 432-443; E. V. K. Fitzgerald, "Peru: The Political-Economy of an Intermediate Regime," Journal of Latin American Studies, Vol. 8, No. 1, (May 1976A), pp. 53-71 and 1976B, op. cit. and 1979; Raymond Duvall and John Freeman, "The State and Dependent Capitalism," International Studies Quarterly, Vol. 25, No. 1, (March 1981), pp. 99-118; and William Canak, "The Peripheral State Debate: State Capitalism and Bureaucratic-Authoritarian Regimes in Latin America," Latin American Research Review, Vol. 19, No. 1 (1984), pp. 3-36. Alfred Stepan (State and Society: Peru in Comparative Perspective, Princeton: Princeton University Press, 1978) refers to the "organic state" which monitors and guides the interactions of private actors, minimizing conflict and ensuring appropriate distribution of rewards. James Cockcroft, (Mexico: Class Formation, Capital Accumulation, and the State. New York: Monthly Review, 1983), the Mexican state increased its influence on Mexican economic development because of the vacuum created by a week entrepreneurial class. See also Dale Johnson, "The National and Progressive Bourgeoisie in Chile," Studies in Comparative International Development, Vol.4, No. 4, pp. 63-86, and Dale Johnson. "Class Formation and Struggle in Latin America," Latin American Perspectives. Vol. 10, No. 2-3, (Spring-Summer 1983), pp. 2-18; and Benedict Anderson, "Old States, New Societies: Indonesia's New Order in Historical Perspective," Journal of Asian Studies, No. 42, 1983, pp. 477-496. 1983.

interests. As a "relatively autonomous" entity, state policies may reflect these interests while resisting the demands of the most powerful groups and classes.

Stephen Haggard's comparative study of industrialization policies in Latin America and East Asia places particular emphasis on the independent role of state elites. For Haggard, policy change is heavily conditioned by the interests of political elites in building and sustaining bases of support. State autonomy is a function of institutional arrangements and capabilities, including the degree of state insulation from societal pressures, the cohesiveness and centralization of the decision-making structure itself, and the instruments available to state elites.[62] Similarly, Barry Ames' analysis of Latin American policy-making argues that political leaders have their own interests, most notably to maintain power, and they thus build strategic coalitions to achieve this end.[63] Lastly, Ellen Kay Trimberger's analysis of Japan, Egypt, Peru, and Turkey pointed to various historical junctures in which military and civilian administrations were independent of the dominant class. During these periods a "revolution from above" can occur if

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[62]Stephen Haggard, Pathways From the Periphery: The Politics of Growth in the Newly Industrializing Countries, (Ithaca: Cornell University Press, 1990).

[63]Barry Ames, Political Survival: Politicians and Public Policy in Latin America, (Berkeley: University of California, 1987).

the political order is threatened by external forces or upheaval from below.[64]

The independent or autonomous role of the state is often linked to the historical evolution of these nations' economies. Given the historic dominance of the landed oligarchy and foreign capital in these societies, they argue, local capital was unable to develop its own entrepreneurial capacity. As Fitzgerald notes, the simple reproduction of capital was obstructed in these nations because a significant part of the machines and inputs required for production was controlled by foreign interests.[65] Since the process of capital accumulation was neither self-regulating nor self-sufficient, the state was called upon to play a crucial role in assuring accumulation. Similarly Cardoso suggests that because the domestic capitalist class does not have the dynamism to lead development, the state must provide the material pre-conditions necessary for accumulation, restructuring industrial production and infrastructure, and regulating the economic activities of the private sector.[66] For Bamat only the state can generate sufficient resources for

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[64]Ellen Kay Trimberger. Revolution From Above: Military Bureaucrats and Development in Japan, Turkey, Egypt, and Peru. (New Brunswick: Transaction Books, 1978).

[65] V. K. Fitzgerald. The State and Economic Development: Peru Since 1968. (Cambridge: Cambridge University Press, 1976B).

[66]Cardoso, 1964, op. cit.

major investments in infrastructure and basic industries.[67] Direct state intervention in the economy was generally considered necessary to correct and overcome inadequacies in the functioning of the private sector. The private sector thus came to depend on state protection and support in order to effectively compete with imports and foreign capital.

In addition, the Latin American state is often required to directly produce goods and services because the private sector is either unable or unwilling to carry out this production. The "entreprenuerial state" thus establishes ownership and control over large areas of the economy, nationalizing domestic and foreign enterprises in the primary export sector, public utilities, and basic industries. The state becomes the principal sources of capital accumulation with interests distinct from either local or transnational capital.

Other studies of the post-colonial state developed

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[67]Thomas Bamat, "Relative State Autonomy and Capitalism in Brazil and Peru," The Insurgent Socialist, Vol 7, (Spring 1977), pp. 74-84. and Fritz Wils, Industrialization, Industrialists, and the Nation State in Peru: A Comparative Sociological Analysis. (Berkeley: University of California, Institute of International Studies, 1979). Both authors argued that because the capitalist class was divided into external and internal sectors, the state was able to gain greater autonomy from domestic class forces. This contrasts with the more instrumentalist position of Dore and Weeks, 1977, op. cit.

variations on this theme.[68] Some researchers argued that the state mediates the interests of all dominant economic groups. This perspective is possibly best reflected in Hamza Alavi's study of Pakistan and Bangladesh. For Alavi, the post-colonial state serves the interest of feudal landlords, indigenous capital, and transnational capital. Although these three classes may have short run conflicts of interest, they have a common interest in preserving the existing social order, the institution of private property, and capitalist production relations.[69]

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[68]Murray, (1967, op. cit.) and Saul, (1979, op. cit.) both point to the unformed nature of the post-colonial state. The class alliances formed by the state are not structurally pre-determined but depend on which political tendency has the upper hand at any given historical moment.

[69]Hamza Alavi, "The State in Post-Colonial Societies: Pakistan and Bangladesh," New Left Review, Vol 74, (July/August 1972), pp. 59-81. For Alavi, the colonial state needed to subordinate all indigenous social classes. This hegemonic position was necessary because territorial boundaries often appeared artificial. In order to accomplish this task, it was equipped with a powerful and repressive bureaucratic-military apparatus. In the post-colonial period the new leaders inherited a "overdeveloped" state apparatus, through which the operations of indigenous social classes are regulated and controlled. The post-colonial state is thus "semi-autonomous" and not simply the instrument of any one of the three classes. In a later article, ("India and the Colonial Mode of Production," in Ralph Miliband and John Saville, (eds.) The Socialist Register 1975. London: Merlin Press, 1975, pp. 160-197), Alavi goes so far as to suggest that capital accumulation on the periphery has a dynamic of its own, qualitatively distinct from the Western experience. This new mode of production is based on the economic structure and productive relations of colonialism and typically a combination of a number of modes of production. A similar perspective is advanced by Jairus Banaji, ("For a Theory of Colonial Mode of Production," Economic and Political Weekly, Vol. 7, December 23, 1972, pp. 2408-2502), who refers to a

For others, the post-colonial state represents the interests of both transnational and local capital. As the global economy becomes increasingly integrated under a single market, it is argued, the distinction between local and foreign capital is less evident. The state simply reproduces the conditions for capitalist accumulation in general. This perspective can be found in the "post-imperialist" writings of Richard Sklar.[70] For Sklar, the world economy has become integrated under the aegis of transnational production, financial and service corporations. As a result, an "international bourgeoisie" has emerged with interest which transcend the political interests of its member states. The present structure of international capital promotes a mutuality of interests between foreign investors and host countries.[71] Multinationals firms collaborate with local capital in establishing joint ventures, trade associations,

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colonial mode of production as a distinct social formation.

[70]Richard Sklar, "Post-Imperialism: A Class Analysis of Multi-National Corporate Expansion," Comparative Politics, Vol. 9, No. 1, (1976), pp. 75-92 and Corporate Power in an African State: The Political Impact of Multinational Mining Companies in Zambia, (Berkeley: University of California Press, 1975).

[71]Also, Theontonio Dos Santos, ("The Structure of Dependence," American Economic Review. Vol. 60, No. 2, May 1970, pp. 231-236), refers to three historical forms of domination: colonial, financial-industrial, and "new dependence." The last category refers to technical-industrial dependence where multinationals set up manufacturing activities in the country and produce for both internal and external markets.

and financial ties. This allows the multinationals to take advantage of certain political strengths which the local firms enjoy such as their domestic legitimacy and ties to the state.

David Becker drew similar conclusions from his analysis of Peru, pointing to a "symbiotic" relationship between local entrepreneurs (mining and industrial) and the transnationals.[72] Osvaldo Sunkel referred to a process of "transnational integration" which incorporates the peripheral bourgeoisie more fully into international capitalism.[73] Dore and Weeks stressed the common interests between domestic industrialists and the transnationals. As they put it, "national capital resolves contradictions not by direct confrontation with imperial capital, (which would be suicidal) but rather by negotiating a mutually profitable alliance."[74] For Bjorn Beckman, the state structures the relationship between multinational corporations and local entrepreneurs to ensure a stable, long-term process of accumulation.[75] Any antagonisms between these two factions of capital are

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[72]David Becker. The New Bourgeoisie and the Limits of Dependence: Mining, Class, and Power in "Revolutionary" Peru, (Princeton: Princeton University Press, 1983).

[73]Osvaldo Sunkel. "Transnational Capitalism and National Disintegration in Latin America," Social and Economic Studies. Vol. 22, No. 1, (March 1973), pp. 132-176.

[74]Dore and Weeks, 1976, op. cit.

[75]Bjorn Beckman, "Whose State? State and Capitalist Development in Nigeria," Review of African Political Economy, No. 23, (January-April 1982), pp. 37-51.

submerged through state mediation.[76]

For others, the third world state mediates the interests of transnational, local, and state capital. Peter Evans' study of Brazilian politics refers to a "triple alliance" between these three factions of capital.[77] While each faction competes for markets and local finance, they all share an interest in maintaining favorable conditions for accumulation and in excluding all other classes from the benefits of such accumulation. Economic policy-making is thus considered the outcome of an intricate set of bargains among these groups. The state is not merely a mediator between local and transnational capital but has its own interest in extending control over the Brazilian economy, either through state-owned enterprises or joint ventures with foreign capital.

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[76]See also Bamat, 1977, op. cit; Steven Langdon, Multinationals and the Political Economy of Kenya, (New York: Macmillan, 1980) and "The State and Capital in Kenya," Review of African Political Economy, No. 8, (January 1977), pp. 90-97; David Barkin. "Internationalization of Capital: An Alternative Approach," Latin American Perspectives. Vol. 8, (Summer/Fall 1981), pp. 156-161; Kwesi Jonah, "Imperialism, the State, and the Indigenization of the Ghanian Economy: 1957-1984," African Development, Vol X, No. 3, (1985), pp. 63-98; and David Becker, et. al. Post Imperialism: International-Capital and Development in the Late Twentieth Century. (Boulder: Lynne Rienner, 1987).

[77]Peter Evans. Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil. (Princeton: Princeton University Press, 1979). See also Thomas Biersteker, (1987, op. cit.) for a similar argument which stresses competition between state, local, and foreign capital in Nigeria.

The post-colonial state is also subject to powerful pressures from non-elite sectors of civil society. Given severe resource scarcities and volatile societal conditions, simply maintaining the existing political order is often the primary task at hand. Disadvantaged groups have often mobilized to challenge political authority. This has been a particular concern in Latin America and the Caribbean where societal unrest has historically accompanied economic decline.[78]

As such, both Alfred Stepan and Guillermo O'Donnell have linked economic decline with the emergence of repressive regimes. For Stepan elite groups are willing to abandon their political power to the state in exchange for protection offered by the new regime. State power is thus used to

[78]Analysis of the extent to which social mobilization has conditioned policy choice in Latin America is reflected in the works of Torcuarto S. DiTella, "Populism and Reform in Latin America," in Claudio Veliz, (ed.) Obstacles to Change in Latin America, (London: Oxford University Press, 1965); Octavio Ianni, "Populismo y Relaciones de Clase," in Gino Germani, Torcuarto S. DiTella, and Octavio Ianni (eds.) Populismo y Contradicciones de Clase en Latinoamerica, (Mexico: Ediciones Era, 1973), pp. 83-150; David Collier, (ed.) The New Authoritarianism in Latin America, (Princeton: Princeton University Press, 1979); James Petras, et. al. Class, State, and Power in the Third World with Case Studies of Class Conflict in Latin America, (Montclair, NJ: Allanheld and Osmun, 1981); Nora Hamilton, The Limits of State Autonomy: Post-Revolutionary Mexico. (Princeton: Princeton University Press, 1982); Alejandro Portes, "Latin American Class Structures: Their Composition and Change During the Last Decade," Latin American Research Review, (Vol. 20, No. 3, 1985), pp. 7-39; and Robert Dix, "Populism: Authoritarian and Democratic," Latin American Research Review, (Vol. 20, No. 2, 1985), pp. 29-52.

deflect threats from the popular sectors.[79] O'Donnell argued that during the later stages of the import substitution process there is a transfer of production away from mass consumption goods towards the production of intermediate and capital goods. This transition requires the "deactivation" and political exclusion of the popular sectors. As such, a new form of class domination emerges - the bureaucratic-authoritarian regime - which represents an alliance of the local military and technocratic elite and the internationalized sectors of foreign and local capital.[80]

State patronage is also a means of offsetting popular pressures. The provision of goods and services through informal clientelist networks or direct employment in the state sector are frequently used to minimize popular threats.[81] Patronage is common in situations where there are great inequalities of wealth and power and an absence of

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[79]Alfred Stepan, State and Society: Peru in Comparative Perspective. (Princeton: Princeton University Press, 1978); and "State Power and the Strength of Civil Society," in Peter Evans, et. al., (eds.) Bringing the State Back In. (Cambridge: Cambridge University Press, 1985), pp. 317-343.

[80] Guillermo O'Donnell Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics. (Berkeley, University of California, Institute of International Studies, 1973).

[81]David Becker, "Bonanza Development and the New Bourgeoisie: Peru Under Military Rule," in Becker et al. (eds.) Post-Imperialism: International Capitalism and Development in the Late Twentieth Century. (Boulder: Lynne Rienner, 1987), pp. 63-106. Becker argued that export-derived revenues allowed the state to provide benefits to mobilized popular groups.

institutional guarantees for an individual's security, status, and wealth. The need to maintain ever increasing patronage networks thus helps account for the expansion of the public sector.

## Reincorporating the Decision-Maker

The state has traditionally played an independent and autonomous role in Latin America and the Caribbean. This is especially true in those cases where governing elites have assumed a prominent role in the production (entrepreneurial-state) or distribution (patronage-state) of resources. At the same time, it is also important to go beyond mechanistic approaches, which reify the state, to re-consider the role of human consciousness and agency. Since public policies are formulated and implemented by individuals in positions of state power, their perceptions, beliefs, and values must be re-incorporated into the analysis.

Belief systems have been defined as the "total universe of a person's beliefs about the physical world, the social world, and the self,"[82] as a "more or less integrated set of

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[82]Milton Rokeach, Beliefs, Attitudes, and Values: A Theory of Organization and Change, (San Francisco: Jossey-Bass, 1968), p. 123. Rokeach was one of the first scholars to consciously link decision-maker beliefs with the study of foreign policy. In a later piece he incorporated values into his definition of belief systems by referring to "enduring organizations of beliefs concerning preferable modes of conduct or end states of existence along a continuum of relative importance." (The Nature of Human Values, New York: MacMillan, 1973, p. 5). Similarly, Katarina Brodin ("Belief

beliefs about man's physical and social environment,"[83] and as "fundamental assumptions about the world, including assumptions about whether events are predictable, whether conflict is basic to human interaction, and whether one can have some control over human events."[84]

Belief systems are thought to serve a number of specific purposes.[85] For Ole Holsti, they provide the individual with

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Systems, Doctrines, and Foreign Policy," Cooperation and Conflict, Vol. 7, 1972, pp. 97-112), equates belief systems with a system of empirical and normative ideas about reality comprising both facts (images of what has been, is, and will be) and values (images of what ought to be). (p. 98) For Jonathan Wilkenfeld, (Foreign Policy Behavior: The Interstate Behavior Analysis, Beverly Hills: Sage, 1980) belief systems include statements about reality, predictions about the future, preferred events and outcomes, and basic goals.

[83]Ole Holsti, "Foreign Policy Formation Viewed Cognitively," in Robert Axelrod, (ed.) The Structure of Decision: Cognitive Maps of Political Elites. (Princeton: Princeton University Press, 1976B), pp, 18-54, p. 20.

[84]Margaret Hermann, "Explaining Foreign Policy Behavior Using Personal Characteristics of Political Leaders," International Studies Quarterly, Vol 24, No. 1, (March 1980), pp. 7-46, p. 8.

[85]While belief systems are often equated with "ideologies," an important distinction should be drawn between these two concepts. Put simply, belief systems can be either "open" or "closed." While an open system is receptive to new information, a closed belief system is relatively impervious to evidence from the outside world which contradicts existing beliefs; contradictory information is either rejected or interpreted in such a way that it conforms with an existing set of beliefs. As Kenneth Boulding (The Image, Ann Arbor: University of Michigan, 1956) suggests messages or events that support the individual's view of the world can be easily absorbed into the image, whereas messages that contradict central parts of the image will not be easily accepted. Following Ole Holsti ("The Belief System and National Images: A Case Study," Journal of Conflict Resolution, Vol. 6, No. 3, September 1962, pp. 244-252),

a coherent way of organizing and making sense out of what would otherwise be a confusing array of signals picked up from the environment. "They orient the individual to his environment, defining it for him and identifying for him its salient characteristics.."[86] Elsewhere, he suggests that in order to cope with the complex, confusing reality of the environment, individuals have to form simplified, structured beliefs about the nature of their world. Belief systems thus serve decision-makers in a variety of ways: as a means of orienting them to the environment, as a lens or prism through which information is processed and given meaning, as a diagnostic scheme, as a means of coping with the cognitive constraints on rationality, and as a source of guidelines that may guide or bound - but not necessarily determine - policy prescriptions and choices.[87] For Katarina Brodin and Alexander George belief systems enable decision-makers to impose a degree of order on the constant stream of impulses

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Philip Converse ("The Nature of Belief Systems in Mass Publics," in David Apter, (ed.) Ideology and Discontent, New York: MacMillan, 1964, pp. 206-261), and Gerard Hopple ("Elite Values and Foreign Policy Analysis: Preliminary Findings," in Lawrence Falkowski, (ed.) Psychological Models in International Politics, Boulder: Westview, 1979, pp. 211-249), ideologies will be equated with closed belief systems. This differs from Rokeach (1968, op. cit. p. 123-124) definition of ideology as a organization of beliefs and attitudes shared with others and derived from external authority.

[86]Holsti, 1962, op. cit., p. 244.

[87]Holsti, 1976B, op. cit., p. 34.

they receive from the world.[88] Lastly, John MacLean suggests that belief systems operate as mediators or filters between the mental states [attitudes, images, meanings, and predispositions] and external reality.[89] Images act as intervening variables in that they mediate between the incoming information and the behavior based on that information.

Belief systems can either help or hinder the decision-making process. On the one hand, they can help decision-makers sort out and understand the multiplicity of signals coming from their environment. At the same time, belief systems may lead to oversimplified or distorted images of that environment.[90] In either case, recognition of decision-maker belief systems, and their affect on decision-making, is crucial.[91]

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[88]Brodin, 1972, op. cit. Alexander George, "The Importance of Beliefs and Images," Commission on the Organization of the Government Conduct of Foreign Affairs, Vol. 2, (June 1975), pp. 17-39.

[89]John Maclean, "Belief Systems and Ideology in International Relations: A Critical Approach," in Richard Little and Steve Smith, (ed.) Belief Systems in International Relations, (Oxford: Basil Blackwell, 1988), pp. 57-83, p. 73.

[90]"Cognitive dissonance" theory suggests that in situations where a deeply held value or belief is contradicted by a new message from the environment the message will be rejected and the value or belief retained. See Leon Festinger, A Theory of Cognitive Dissonance (Stanford: Stanford University Press, 1957).

[91]Past studies of the effect of belief systems on foreign policy decision-making have focused almost exclusively on security issues. In recent years, however, scholars have begun to recognize the importance of beliefs and values in the formation of economic policy. Paul Rohlich points to the

importance of "economic belief systems" defined as a "set of values and beliefs about social economics which guides and legitimizes policy-making." ("Economic Culture and Foreign Policy: The Cognitive Analysis of Economic Policy-Making," International Organization, Vol. 41, 1987, pp. 61-92, p. 64) For Rohlich, the role of perceptions and cognition is particularly important in economic decision-making because the reasoning is more subtle, less visible, and more value-laden than the reasoning on strategic threats. As such, he argues that theorizing about international political economy "must also address the role of perceptions in economics and economic policy." (p. 65). Also see Benjamin Ward, The Ideal World of Economics. (New York: Basic Books, 1979); Robert Gilpin, The Political-Economy of International Relations, (Princeton: Princeton University Press, 1987); Roger Tooze, "Economic Belief Systems and Understanding International Relations," in Richard Little and Steve Smith, (eds.) Belief Systems and International Relations. (Oxford: Basil Blackwell, 1988), pp. 127-138; and Steve Smith, "Belief Systems and the Study of International Relations," in Richard Little and Steve Smith, (eds.) Belief Systems in International Relations. (Oxford: Basil Blackwell, 1988), pp. 11-36. For empirical studies see Stephen Krasner, (Defending the National Interest: Raw Material Investments and U.S. Foreign Policy, Princeton: Princeton University Press, 1978) where Lockean liberalism is thought to have driven post-war U.S. foreign policy; Richard Gardner, (Sterling-Dollar Diplomacy in Current Perspective. New York: Columbia University Press, 1980) who attributed post-war multilateral collaboration to the strong resurgence of liberal economic thought; John Odell, (U. S. International Monetary Policy: Markets, Power, and Ideas as Sources of Change. Princeton: Princeton University Press, 1982) who argues that a powerful source of change in American foreign monetary policy in the 1960s and early 1970s was the circulation of liberal economic ideas in Washington; Judith Goldstein, ("Ideas, Institutions, and American Trade Policy," International Organization, Vol. 42, No. 1, Winter 1988, pp. 29-217), who makes a similar argument with respect to U.S. trade policy. Also the edited collection by Peter Hall, (The Political-Economy of Economic Ideas: Keynesianism Across Nations. Princeton: Princeton University Press, 1989) explores how Keynesian ideas influenced policy in a number of advanced industrial states; Kathryn Sikkink, (Ideas and Institutions: Developmentalism in Brazil and Argentina, Ithaca, Cornell University Press, 1990) considers how the ideal of developmentalism influenced state policies in Argentina and Brazil; David Mares, ("Explaining Choice in Development Strategies: Suggestions from Mexico 1970-1982," International Organization, Vol. 39, No. 4, Autumn 1985, pp.

At the same time, readopting the early "personality" approach, where policy-making was considered fairly arbitrary, discretionary, and intuitive, would reintroduce many of the theoretical and methodological shortcomings outlined above. Decision-makers are clearly not "free agents" but respond to pressures and constraints of their foreign and domestic environments. As such, the study of foreign economic policy must explore how environmental pressures are perceived and interpreted by key decision-makers. A comprehensive framework, which integrates all three levels of analysis and considers the interrelationships between environmental forces and decision-maker perceptions, is required. Decision-maker perceptions thus represent an intervening or contributing variable in the policy-making process.

The framework for this study is fairly straightforward. To begin, I argue that political elites are primarily concerned with maintaining power; these individuals directly benefit from their positions of power and have an obvious stake in preserving the status quo. Policy choice thus reflects decision-maker perceptions of which measures are necessary to reproduce the existing political order. How is the domestic social order structured and what is the relative position of different groups within this system? To what extent is state power dependent on meeting the needs of

667-697) makes a similar argument with respect to economic policy choice in Mexico.

politically powerful societal groups? Which policies best respond to these needs?

At the same time, the relative viability of alternative policies must also be considered. Decision-makers must assess which policies can be sustained overtime given the constraints of their foreign and domestic environments. Here perceptions of the external environment are crucial. How is the international system structured and what is the relative position of their state in this system? To what extent is state power dependent on meeting the needs of politically powerful foreign actors? Which policies best respond to these needs? How are foreign actors likely to respond to alternative policies under consideration? Which policies will encounter resistance? Can this resistance be overcome? Decision-makers must ask a similar set of questions with respect to their domestic environment. How would other domestic groups be expected to respond to alternative policies? Which policies would encounter the most resistance? Can this resistance be withstood?

In short, while decision-makers are clearly subject to powerful environmental constraints, these constraints operate at the perceptual level: which policies are considered both necessary and viable are based on decision-maker perceptions of their foreign and domestic environments. The affect of environmental forces on state policies is mediated by the perceptions, images, and interpretations of decision-makers.

This perspective clearly differs from a purely structural argument. While state policies are influenced by environmental forces they are not simply a reflection of these forces. Rather, there is a reciprocal relationship between objective constraints and subjective beliefs. Because environmental perceptions may not be completely accurate or may change with a lag, policy choice sometimes differs from what the objective structural conditions would predict.

From Self-Reliance to Global Integration

A decision-maker perspective provides an alternative explanation for economic policy choice in Latin America and the Caribbean. This perspective helps account for both the emergence of economically nationalist policies in the 1970s and the liberalization of trade and investment regimes today.

Decision-makers clearly linked economically nationalist policies with regime maintenance during the 1970s. This perspective was, at least in part, influenced by the emergence of radical social science scholarship, most notably "dependency theory," in the late 1960s and early 1970s. This scholarship attributed the poor progress of developing nations to their historical insertion into the global economic system. The expansion of Western capital was linked to the economic and social backwardness of these nations.

The writings of Andre Gunder Frank reflect this perspective. Frank linked contemporary underdevelopment with the structural relationship between "metropolitan" and "satellite" countries.[92] As such, world capitalism simultaneously generated economic development in some parts of the world and underdevelopment in others.[93] Similarly, Clive Thomas pointed to a global division of labor in which the colonies were relegated to being providers of raw materials and consumers of manufactures. As a result, the productive forces of these countries were detached from their roots in the domestic market and were unresponsive to the needs of the local economy.[94] As Osvaldo Sunkel put it, underdevelopment was "part and parcel of the historical process of global development in the international system." Development and underdevelopment were "simply two faces of a single universal process."[95]

Dependency theories went on to argue that "liberal" international trade and investment regimes tended to reinforce this process of underdevelopment. These regimes simply preserved and intensified colonial economic relations assuring

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[92]Andre Gunder Frank. "The Development of Underdevelopment," Monthly Review, Vol. 18, (September, 1966), pp. 17-31, and 1967, op. cit.

[93]Frank, 1966, ibid., p. 17.

[94]Clive Thomas. Dependence and Transformation: The Economics of the Transition to Socialism. (New York: Monthly Review Press, 1974).

[95]Osvaldo Sunkel. "Transnational Capitalism and National Disintegration in Latin America," Social and Economic Studies. Vol. 22, No. 1, (March 1973), pp. 132-176, pp. 135-136.

the advanced states access to cheap labor and primary commodities, ready markets for their manufactured goods, and opportunities for capital investment. Various researches pointed to a "structural bias" in world trade against Southern exports or a long-term tendency for the value of primary products to decline relative to the value of manufactured products.[96] As such, primary product exporting nations had to increase their exports from one year to the next to earn the foreign exchange necessary to purchase the same volume of manufactured imports.[97]

Dependency theorists went beyond simply pointing to a system of "unequal exchange" between rich and poor countries to examine the structure and character of developing nations.

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[96]This perspective is especially evident in the writings of scholars associated with the ECLA School.

[97]This "structural bias" was linked to both the characteristics of primary commodities (inelastic demand and liability to substitution) and to the character of primary producing countries (surplus labor leading to high supply elasticity and weak labor organizations leading to low wages). Arghiri Emmanuel, (Unequal Exchange: A Study of the Imperialism of Trade. New York: Monthly Review Press, 1972) pointed to a long term tendency for the terms of trade to move against third world states. Employing the Marxian theory of value, Emmanuel argued that one hours work embodied in a commodity produced by a third world worker exchanges for less than one hours work embodied in the product of a first world worker. This was possible because capital was mobile and labor was not. As such, the wage rates in the third world were lower, even holding constant differences in productivity. Differential wage rates thus allowed for the systemic transfer of value. Samir Amin, (Accumulation on a World Scale: A Critique of the Theory of Underdevelopment, New York: Monthly Review Press, 1974) also attributed price differentials to unequal wage rates. The rate of exploitation of labor, he argued, was consistently higher in the periphery.

These nations were considered "dependent" because they were no longer able to exert control over their national economies. While advanced states were able to maintain a process of accumulation, "the rate and direction of accumulation [in the developing world] are externally conditioned."[98] For Theontonio Dos Santos "dependence" reflected,

> ... a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of interdependence between two or more economies ... assumes the form of dependence when some countries (the dominant ones) can expand and can be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion...[99]

Cardoso and Faletto argued that peripheral capitalism was incapable of universalizing capitalist relations of production in the third world context. The lack of capital goods production in the developing world necessitated articulating these economies with the global market in order to complete the cycle of capitalist reproduction. As they put it,

> ...the economic system is dependent when the accumulation and expansion of capital cannot find its essential dynamic component inside the system.[100]

Samir Amin also pointed to the absence of "auto-centric"

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[98]Evans, 1979, op. cit., p. 11.

[99]Theontonio Dos Santos, "The Structure of Dependence," American Economic Review, Vol 60, No. 2, (1970), pp. 231-236, p. 231.

[100]Cardoso and Faletto, 1979, op. cit. pp. xx.

expansion in the periphery.[101] The peripheral economy was prevented from accumulating capital indigenously, he argued, since capital generated at the periphery was transmitted to the center.[102] This structural position prevented Southern nations from developing a capital goods sector or diversifying their economies to produce manufactured products. Rather, developing nations were "dependent" on the industrialized world; they were unable to carry out autonomous, self-sustained social and economic development. This is also reflected in Havlock Brewster's definition of "dependence" as constituting a ...

> ... lack of capacity to manipulate the operative elements of an economic system. Such a situation is characterized by an absence of inter-dependence between the economic functions of a system. The lack of inter-dependence implies that the system has no internal dynamic which could enable it to function as an independent, autonomous entity.[103]

The dependency perspective clearly influenced policy-

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[101]Samir Amin, Unequal Development: An Essay on the Social Formation of Peripheral Capital. (New York: Monthly Review Press, 1976) and Accumulation on a World Scale: A Critique of the Theory of Underdevelopment. (New York: Monthly Review, 1974).

[102]For Amin auto-centric expansion required at least one sector producing capital goods and one sector producing mass consumption goods. Because a capital goods sector was largely absent in the developing world, the agricultural and extractive export enclaves tended to be the only dynamic sectors of the economy. Rather than having an indigenously oriented process of accumulation, third world economies were subject to the logic of accumulation of the center.

[103]Havlock Brewster. "Economic Dependence: A Quantitative Interpretation." Social and Economic Studies, Vol 22, No. 1, (March 1973), pp. 90-95.

makers in Latin American and Caribbean. The political elite of these nations began to equate their own political survival with restructuring their nation's foreign economic relations.[104] Given their clientelist political systems,

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[104]Recent challenges to the prevailing liberal economic regimes are frequently attributed to the adoption of dependency economic belief systems by third world decision-makers. See for example Herb Addo. "Foreign Policy Strategies for Achieving the New International Economic Order: A Third World Perspective," Sage International Yearbook of Foreign Policy Studies, Vol. 6, 1981, pp. 233-253; Bahgat Korany "Foreign Policy Models and Their Empirical Relevance to Third World Actors: A Critique and an Alternative," International Social Science Journal. Vol 26, No. 1. (1974) pp. 70-94; Anton Bebler "Self-Assertion in the Third World," International Political Science Review. Vol. 1, No. 3, (1980) pp. 369-380; Christopher Hill, "Theories of Foreign Policy-Making for the Developing Countries in Christopher Clapham. (ed.) Foreign Policy-Making in Developing States: A Comparative Approach. (Westmead, England: Saxon House, 1977), pp. 1-17; Robert Rothstein "The North-South Dialog - The Politics of Immobility," Journal of International Affairs. Vol. 34, No. 1, (Spring/Summer, 1980) pp. 1-18; Robert Rothstein, The Weak in the World of the Strong: The Developing Countries in the International System. (New York: Columbia University Press, 1977); Craig Murphy, The Emergence of NIEO Ideology. (Boulder: Westview Press, 1984); "What the Third World Wants: An Interpretation of the Development and Meaning of the NIEO Ideology," International Studies Quarterly. Vol 27, No. 1, (March, 1983) pp. 55-76; Stephen Krasner, 1985, op. cit, p. 94; and Peter Calvert The Foreign Policy of New States. (New York: St. Martin's, 1986), p. 122. Although the adoption of economic beliefs is often linked to economic policy-making, past studies have been highly speculative and impressionistic, with few attempts to empirically explore this relationship. Two key exceptions include the recent work of Emmanuel Adler, (The Power of Ideology: The Quest for Technological Autonomy in Argentina and Brazil. Berkeley: University of California Press, 1987) and Keisuke Iida, ("Third World Solidarity: The Group of 77 in the UN General Assembly," International Organization. Vol 42, No. 2, Spring, 1988, pp. 375-395). Adler's analysis of Brazil focuses on ideologically motivated scientists, technologists and economists in state institutions who convinced decision-makers of the ill-effects of foreign dependence and the benefits of technological autonomy. For

the maintenance of state power required the continued ability to fund patronage networks. This, in turn, required greater state control over societal resources. For Latin American and Caribbean decision-makers, existing trade and investment regimes seemed to limit the flow of resources to the state. As a consequence, a thorough restructuring of foreign economic relations to promote greater sovereignty over their national economies and independence from foreign domination was considered imperative.

At the same time, the perceived need for economically nationalist policies by Latin American and Caribbean decision-makers was not, in itself, a sufficient condition for the adoption of such policies. Decision-makers also had to believe that challenges to global liberalism were viable; that there was the necessary political space to significantly restructure their foreign trade and investment relations.

Changes in the global system seemed to present Latin American and Caribbean nations with an unprecedented opportunity to challenge the existing regimes. There was a widespread perception that the global distribution of power was shifting in their favor; while the Northern states were weakening, Southern states were on the ascendancy. As such,

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Adler, the presence of these "anti-dependency ideological guerrillas" explains efforts to obtain technological autonomy in Argentina's nuclear power industry and Brazil's computer industry. Similarly, Iida attributes the common voting behavior of third world states in international organizations to a common perception of being economically dominated.

the North's ability to defend the liberal order was increasingly in doubt.

The position of the United States was critical. Emerging in the post-war period as the dominant power, the United States was able to establish the dollar as the universal currency for international trade and payments. The U.S. was able to use this hegemonic position to maintain a relatively free flow of international trade and capital movements. Initially, U.S. material resources precluded effective challenges to liberal international regimes. However, U.S. dominance gradually began to erode.[105] In 1971, the U. S. began to show a balance of payments deficit for the first time in the century.[106] As domestic pressures mounted, the U.S. renounced its leadership role in global monetary affairs and unilaterally suspended dollar-gold convertibility. By March 1973 the system of par values broke down completely and a floating exchange rate system was instituted. At the same time, American military might seemed to be on the decline.

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[105]The gross national product of the United States constituted about sixty-two percent of all OECD nations in 1950; by 1970 this ratio was down to forty-eight percent. U. S. exports also dropped during same period, from fifty percent of total OECD exports to just nineteen percent.

[106]United States balance of payments problems were due, at least in part, to the global liquidity crisis in late 1960s. The international system was unable to provide adequate world reserves as the volume of international trade and financial transactions grew. This deficiency meant that countries turned to using the U.S. dollar for the bulk of their reserves which put the U.S. in a position of having to run continuous balance of payments deficits.

The U.S. defeat and withdrawal from Vietnam had enormous symbolic significance for nationalist movements in other parts of the post-colonial world. An editorial in the Japanese periodical Asahi Shimbun underscored this point.

> The war in Vietnam has been in every way a war of national emancipation. The age in which any great power can suppress indefinitely the rise of nationalism has come to an end.[107]

The Western economic system was also weakened on another front. By the end of the 1960s, the long post-war economic boom was coming to an end. Recession, inflation and unemployment in the major industrial nations demonstrated the fragility of their economies. As these nations began to experience severe economic and financial difficulties, they increasingly resorted to protectionist measures.[108]

At the same time, Southern nations appeared to be on the ascendancy. On the one hand, global resource scarcities seemed to enhance the bargaining strength of these nations as many resources critical for maintaining industrial economies were controlled by the South. Southern nations were also beginning to present a united front in global forums. Third world unity, a function of their common historical experiences

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[107]As quoted in the New York Times, May 2, 1975.

[108]Such as import barriers, voluntary export restraints, and countervailing duties. Moreover, the United States devalued the dollar ten percent relative to the mark and yen and instituted an across the board ten percent import surcharge in 1971.

and emerging ideological symmetry,[109] seemed to give developing nations a fairly credible bargaining position with the Northern states.[110]

Third world reform efforts culminated in the resolutions adopted at the Fourth Non-Aligned summit conference in Algiers in 1973 and in the call for a New International Economic Order (NIEO) at the Sixth Special Session of the UN General Assembly one year later. NIEO declared that every state has and shall

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[109]Various scholars have examined the ideological unity of developing nations. See especially Christopher Hill, 1977, op. cit.; Christopher Clapham, (ed.) Foreign Policy-Making in Developing States: A Comparative Approach, (London: Saxon House, 1977); Robert Rothstein, 1977, op. cit.; Craig Murphy, 1984, op. cit.; Jeffrey Hart, New International Economic Order: Cooperation and Conflict in North-South Relations: 1974-1977, (New York: St. Martins Press, 1983); Stephen Krasner, 1985, op. cit.; and Mohammed Ayoob, "The Third World in the System of States: Acute Schizophrenia or Growing Pains?" International Studies Quarterly, Vol. 33, No. 1, (March 1989), pp. 67-80.

[110]Attempts to establish a unified front among developing countries can be traced back to the 1940s when these nations first began to assert that the colonizers had historic duties and obligations to the colonized. This was followed by the formation of an Asian-African Group at the United Nations in 1950 and the 1955 meeting of twenty-seven Asian and African leaders in Bandung, Indonesia. These initial efforts laid the basis for establishing the NonAligned Movement (NAM) in 1961. Originally designed to consolidate and ensure the political independence of its member states, economic issues soon came to dominate the NAM agenda. Political independence, they argued, was meaningless in the face of economic dependence. In 1964, third world states successfully convened the first United Nations Conference on Trade and Development (UNCTAD) to provide institutional support for global economic reform efforts. UNCTAD was later established as a permanent organization of the U. N. General Assembly providing a forum for third world critiques of the prevailing economic order. The Group of 77 was later established to coordinate the actions of third world states within UNCTAD and to devise a common strategy against the North.

freely exercise full permanent sovereignty including possession, use, and disposal over its wealth, natural resources, and economic activities. It also provided the basis for each state to regulate and control foreign direct investment. The resolution sought improved purchasing power for raw material and commodity exports, greater access to the commercial markets of advanced states, restructuring of global trade and monetary systems, an infusion of capital and technology from the North, cancellation and renegotiation of foreign debt, a code of conduct for technological transfers, and greater decision-making power for the South in international financial institutions.

These issues were also central to the EEC-ACP and CIEC negotiations, which began in 1975.[111] The Fourth United Nations Conference on Trade and Development (UNCTAD) meeting in 1976 concluded an agreement to set up an Integrated Program of Commodities (IPC) in order to stabilize the price of these products.

[111]The EEC-ACP negotiations were between members of the European Economic Community, (primarily Britain and France) and their former colonies in Africa, the Caribbean, and the Pacific. These talks led to the Yaounde (1974) and Lome (1975) conventions which provided some compensation for international price fluctuations. Lome was renewed in 1979. A more limited set of negotiations took place under the auspices of the Conference for International Economic Cooperation (CIEC) in 1975. The CIEC talks ended with pledges of aid to the International Development Association (IDA) and regional development banks, to expand Special Drawing Rights (SDR) to aid poorer nations, and to set up a commodity fund to help stabilize commodity prices.

The success of the Organization of Petroleum Exporting Countries (OPEC) in quadrupling the price of oil between October and December of 1973 may have had the greatest effect on decision-maker perceptions. OPEC seemed to provide a concrete example of what could be achieved through the collective efforts of developing nations. Here was a case in which a group of non-industrialized countries had actually succeeded in securing market power for their export commodity and a substantial improvement in their terms of trade with the industrialized nations.[112] OPEC also demonstrated the extent to which the Northern states were dependent on the primary products of the South. As such, the success of the oil cartel might be replicated for other minerals and raw materials. In addition, OPEC nations were expected to use their bargaining leverage to focus attention on economic grievances of developing nations.

In short, Latin American and Caribbean decision-makers felt economically nationalist policies were both necessary and viable in the early 1970s. While protectionist trade and investment policies would relieve domestic pressures and help consolidate state power, a shift in the international balance of forces seemed to guarantee the long-term viability of such policies.

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[112]This point is stressed by Norman Girvan in his "Economic Nationalism," Daedalus, Vol. 104, No. 4, (Fall 1975), pp. 145-158.

Latin American and Caribbean decision-makers have since reassessed the necessity and viability of economically nationalist policies. On the one hand, such policies are no longer considered necessary. The success of the newly industrializing countries (NICS) which pursued export-led development strategies has undermined confidence disengagement strategies.[113] The experience of these nations suggests that development choices were not simply between dependency and development.[114] The dismal record of those countries which had pursued self-reliant models also undermined faith in non-market strategies.[115] There is a greater recognition of the extent to which all nations have been integrated into the

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[113]It is important to note that while the exchange rate policies of these nations were not biased against exports, they did have high levels of protection for their import competing industries.

[114]Various scholars attributed growth in the developing world to be the result of the expansion of capitalism internationally. Multinational firms were thought to have an interest in national development, local capital accumulation, and increased differentiation of internal productive structures. See especially, Bill Warren, 1980, op. cit.; Stephen Haggard, "The Newly Industrializing Countries in the International System," World Politics, Vol. 38, No. 2, (January 1986), pp. 343-370; James Cypher, 1979, op. cit.; Paul Kennedy, 1977, op. cit.; Cardoso and Faletto, 1979, op. cit.; Peter Evans, 1979, op. cit.; Nicola Swainson, 1977, op. cit.; Gary Gereffi and Peter Evans, "Transnationals, Dependent Development, and State Policy in the Semiperiphery: A Comparison of Brazil and Mexico," Latin American Research Review, Vol. 16, No. 3, (1981), pp. 31-64; and Christian Palloix, The Internationalization of Capital, (Lima: Maspero, 1975).

[115]The World Bank's 1987 Report found that countries with an "outward orientation" had grown at a faster rate during the last two decades than countries with an "inward orientation."

global economy. Foreign and local capital seem to have more common than divergent interests; both groups have a common interest in maintaining the process of accumulation - a process which has increasingly become an international rather than purely national phenomenon.

In many respects, the present structure of international capital tends to promote a mutuality of interests between foreign investors and local entrepreneurs. Multinationals collaborate with local capital in establishing joint ventures, trade associations and financial ties. As such, domestic manufacturers are rarely considered "autonomous" of foreign capital. While local producers may have gained some control over production and distribution, they remained extremely dependent on foreign capital, intermediate products, and external markets.

Decision-makers have also reassessed the viability of economically nationalist policies. There is presently a widespread belief that external forces have turned against Latin American and Caribbean nations. The Northern states have restructured their economies to meet the changing imperatives of the global system and their renewed economic strength has allowed them to reassert hegemony over the Southern nations.

In addition, the South was never really able to use its resource power to challenge the liberal order. The OPEC cartel declined as member states were unable to agree on production quotas and global demand for petroleum lessened.[116] The industrialized nations successfully opened up new areas for mineral exploration and developed substitutes for non-renewable resources. Moreover, attempts to establish producer cartels for other primary commodities were largely unsuccessful; the prices of many of these commodities actually declined relative to the price of manufactured products.[117]

At the same time, divisions within the developing world limited their ability to present a united front in North-South negotiations.[118] The OPEC nations rarely used their leverage to advance the South's program for stabilizing international commodity prices.[119] Global economic

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[116]This was due in part to increased production of non-OPEC oil, stockpiling, expanding sources of alternative energy, and energy conservation.

[117]This was true with respect to attempts to establish producer cartels in copper, tin, bauxite, mercury, tungsten, phosphate, and coffee.

[118]A number of divisions emerged among developing nations. These divisions were often related to differences in levels of development, per capita income, political systems, state ideology, or cultural traits. Developing nations also split over geographical differences. See Robert Rothstein, (1980, op. cit.) In the Law of the Sea negotiations, for example, competing blocs formed between coastal and landlocked states.

[119]At the CIEC meetings in Paris, OPEC countries withdrew from an earlier position that oil would be negotiated along with other raw materials. OPEC also failed to provide financial support for the establishment of the Common Fund, which would have stabilized raw material prices under the Integrated Program of Commodities, (IPC).

negotiations, which seemed to hold some promise in the mid-1970s, virtually collapsed. The 1980 special session of the United Nations General Assembly on economic issues ended in failure.

Possibly the most important development during this period was the emergent balance of payments and debt crises in Latin America and the Caribbean. The deteriorating external accounts of these nations are frequently traced back to the drastic increase in the world market price of petroleum. The enormous surpluses which the oil exporting nations accumulated were deposited in commercial banks in Europe and North America.[120] Under pressure to recycle these petro-dollars the banks turned to the nations of the developing world.[121] The governments of these nations were more than willing to borrow from foreign capital markets since the money could be used to offset foreign exchange shortages and real interest rates were relatively low at the time.

Toward the end of the 1970s the balance of forces began to turn against the South. Creditor nations, grappling with severe inflationary problems at home, (especially after a second round of oil price hikes in 1979), instituted tight

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[120]Between 1965 and 1984 the Euro-currency market increased from $55 billion to $2100 billion.

[121]Between 1975 and 1980 commercial bank lending to developing countries increased twenty-five percent per annum on average and the total debt increased six-fold. This was due in part to the deregulation in the financial industry.

monetary policies which drove up interest rates. Because many of the loans were contracted under floating rate agreements, developing nations suddenly faced skyrocketing debt-servicing obligations.[122] Their problems were compounded by the 1980-82 global recession as export markets collapsed and commodity prices plummeted.[123]

The combination of higher debt payments and reduced export earnings led to chronic liquidity and foreign exchange shortages throughout the developing world. By this point new commercial lending had also dried up as the banks began to loose confidence in the ability of these nations to repay their past loans.[124] At the same time, the bilateral and multilateral government organizations were either unwilling or unable to step in and make up the deficiency. In order to continue purchasing vital imports many nations turned to the International Monetary Fund (IMF) for assistance.[125]

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[122]By 1980, for example, seventy-five percent of Latin American commercial debt was attached to floating interest rates.

[123]Exports from developing countries, which had doubled in 1976-80, suddenly declined; exports for non-oil exporters in 1981 fell off to their 1976 level while the market for oil exporters grew even weaker.

[124]For the most part, new loans have been extended simply to enable borrowers to continue payments on their current debt service obligations. Many of these nations have actually become net capital exporters.

[125]The IMF was created to promote global trade and investment by ensuring liquidity in the world economy, currency convertibility, and exchange rate stability. The role of the IMF is to maintain an environment that facilitates

The IMF has traditionally been a "lender of last resort" for nations experiencing foreign exchange problems. IMF support is contingent on the adoption of "structural adjustment" reforms designed to restore "equilibrium" to the nation's internal and external accounts. These reforms reflect the Fund's preference for a market-based allocation of resources between and within nations.[126] Moreover, other sources of credit, including the World Bank[127], the Paris Club, many bilateral programs, and most commercial banks, began making further loans contingent on acceptance of an IMF

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the accumulation of capital on a world scale. This requires the complete international mobility of capital and commodities. The Fund provides short-term support for nations experiencing balance of payments problems in order to lessen the need for restrictive trade practices or competitive devaluations.

[126]The IMF's reasoning goes something like this. Balance of payments deficits occur when local demand outstrips supply. Consumers and businesses thus turn to importing goods and services which they might otherwise purchase at home. The adjustment process is designed to stem imports by reducing the overall level of aggregate demand. Restrictive fiscal policies, such as cutting food, housing, and transportation subsidies, freezing wages, dismantling price controls, and raising taxes, lessen demand by reducing real income. Tight monetary policies, such as restrictions on domestic credit and money supply and raising interest rates, have the same affect. Lastly, devaluing the currency and liberalizing the nation's trade and investment regimes create more favorable conditions for export production and capital inflows. These policies are expected to restore balance of payments equilibrium by reducing financial outflows and increasing financial inflows to the nations.

[127]The World Bank also introduced liberalization requirements when it established its Structural Adjustment Lending Program in the early 1980s. This represented a major departure in the Bank's lending practices which had previously stressed project loans.

structural adjustment agreement. The IMF had become the seal of "creditworthiness" and solvency.

In short, Latin American and Caribbean decision-makers no longer consider economically nationalist policies to be necessary nor viable. Domestic political imperatives and the constraints of the external environment have convinced decision-makers that there is virtually no alternative to the liberal reforms.

## Structural and Perceptual Change: Toward Synthesis

This chapter has considered the shift from economic nationalism to neo-liberalism in Latin America and the Caribbean. While international and domestic structural approaches present theoretically plausible explanations for this shift, they have not always stood the test of empirical verification. As such, a state-centric and subjective approach which focuses on decision-maker perceptions of the necessity and viability of alternative foreign economic policies was presented.

Clearly decision-maker perceptions of their foreign and domestic environment must be central to the study of economic policy-making in Latin America and the Caribbean. While economically nationalist policies were considered both necessary and viable in the 1970s, state policy-makers have since concluded that present domestic political imperatives and external power inequalities preclude challenges to global liberalism today.

This is not meant to suggest that perceptual change is unrelated to the real world. Clearly the international and domestic environments have changed during the period under review. However, structural arguments which focus exclusively on these environmental changes only tell part of the story. Since policy choice is based, at least in part, on decision-maker perceptions of the opportunities and constraints of their foreign and domestic environment, and since these perceptions may not be completely accurate or may change with a lag, a decision-maker approach must be central to the study of foreign economic policy choice in Latin America and the Caribbean. While decision-maker perceptions may not constitute an independent variable in the policy-making equation, they do represent an intervening or contributing factor which must be included in the analysis. As the following chapters demonstrate, this perspective helps illuminate recent economic policy choice in Venezuela and Jamaica.

## Chapter Three

## COMPARATIVE ECONOMIC POLICIES: VENEZUELA AND JAMAICA

Carlos Andres Perez and Michael Manley were determined to radically restructured their nations' foreign economic relations during the 1970s. Trade was brought under a tight system of state control and foreign investment was limited to only those cases where it was consistent with each nation's long-term development objectives. Both leaders also nationalized key sectors of the local economy.

Although out of power during most of the 1980s, Perez and Manley were returned to office in 1989. The economic policies pursued by both leaders since this time, however, bear little resemblance to their earlier administrations. "Self-reliance" and "economic independence" no longer top their policy agendas. Rather, both leaders have moved to liberalize their nations' trade and investment policies and promote greater integration in the global economy.

This chapter reviews the foreign economic policies of both Perez and Manley during the two time periods in question. It thus sets the stage for a more detailed analysis of the policy-making process in the chapters which follow.

Economic Nationalism in Venezuela, 1974-1979

When Carlos Andres Perez first assumed the Venezuelan Presidency in 1974 he immediately set out to challenge global liberalism. Perez became a leading proponent of "new international economic order" (NIEO) proposals and a key spokesperson for the interests of the developing world.[1] Under Perez's leadership, Venezuela assumed a prominent position in North-South negotiations with Perez playing an especially active role in the development of an Integrated Program of Commodities (IPC) and the establishment of a Common Fund.[2] Perez also became the principal champion of using petroleum as an instrument for re-ordering international economic relations and using petrodollars to benefit the

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[1]The role played by Venezuela in promoting NIEO proposals is outlined in greater detail elsewhere. See especially Agustin Blanco Munoz. "Venezuela: De la Unidad 1958 al Anti-Imperialismo Adeco 1975," Desorden. Vol. 4, No. 9, (1975) pp. 17-49; Markos Mamalakis. "The New International Economic Order: Centerpiece Venezuela," Journal of InterAmerican Studies and World Affairs. Vol. 20, No. 3, (August 1978), pp. 265-296; Janet Kelly de Escobar, "Venezuelan Foreign Economic Policy and the United States," in Jorge Dominguez, (ed.) Economic Issues and Political Conflict: U.S. - Latin American Relations. (London: Butterworth Scientific, 1982), pp. 107-141; Alfredo Baldo Casanova, "La Politica Exterior de Venezuela: 1974-1979," Politica Internacional. No. 4 (October-December 1986), pp. 14-20; Charles Ameriger, "The Foreign Policy of Venezuelan Democracy," in John Martz and David Myers (eds.) Venezuela: The Democratic Experience. (New York: Praeger, 1977), pp. 335-358; and Robert Bond, "Venezuela's Role in International Affairs," in Bond (ed.) Contemporary Venezuela and its Role in International Affairs. (New York: Council on Foreign Relations, 1977), pp. 227-262.

[2]The nation was also elected co-chair of Council for International Economic Cooperation (CIEC) and played an active role in the Group of 77 and the NonAligned Movement.

developing world.[3] While Perez's actions in international forums were symbolically important, the policies which he put in place at home had the most impact. Perez first moved to restructure Venezuela's trade policies. Protectionist measures, such as duties on consumer goods, were adopted to limit imports.[4] Capital goods, on the other hand, faced only moderate duties while raw materials were virtually duty-free. The Perez administration also promoted non-traditional exports via state protection and subsidies, and public support for other industries with export potential.

The administration also sought to restructure and diversify Venezuela's trade relations. Government-owned enterprises were used to diversify import sources, with country of origin becoming a criteria in equipment bid evaluations.[5] Special focus was placed on shifting trade relations from the American and European markets toward other

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[3]A number of bilateral and multilateral funding arrangements were established with international lending institutions in an attempt to better distribute petroleum revenues. The Venezuelan Investment Fund was also created in 1974 to assist other developing countries purchase petroleum and develop long-term energy policies.

[4]Duties on new automobiles were three hundred percent, for example, and similar duties were placed on other consumer durables. See Office for the Promotion of Exports, Cuaderno de Propuestas 2

[5]With respect to petroleum, this meant using state-to-state arrangements to re-direct sales, seeking out clients without the intermediary of international petroleum companies, and encouraging new customers with favorable terms and credits.

Latin American nations.[6] Perez became a strong supporter of the Latin American Free Trade Association and the Latin American Economic System, (SELA). For Perez, because each nation had a relatively small domestic market, economic integration would help the region's manufacturers by expanding their economies of scale. Import-substitution would thus be carried out on a region-wide rather than national basis, which would, in turn, reduce the costs of such substitution. The Perez administration also maintained tight controls over the nation's currency and exchange rate. The exchange rate was held at 4.3 bolivars per United States dollar throughout the entire period.

Perez also sought to redefine the terms of foreign capital investment in Venezuela. His government adopted strict limits and controls on foreign corporations with their participation in the Venezuelan economy limited to solely those areas where it coincided with the nation's long-term development objectives.

Stricter controls on transnationals were designed to

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[6]An example of expanding relations with other nations in the region was the 1974 Aluminum-Petroleum agreement with Jamaica. Venezuela agreed to participate in the development of an aluminum smelter in Jamaica. In exchange, Jamaica was offered equity share in a new Venezuelan smelter in Guayana. Venezuela also promised to sell Jamaica petroleum at half the world market price, with the remainder to be made in local currency for reinvestment in long-term development projects. The difference was to be regarded as a loan, with the money used by Jamaica for importing goods, primarily from Venezuela, for its development program.

bring Venezuela into accord with the Cartegena Agreement of the Andean Pact. The Andean Pact, which Venezuela had joined in 1973, provided a common regime for the entry and operation of foreign owned businesses in the region.[7] Decision 24 of the Pact established a framework for the control of foreign capital, technology, and financial institutions.[8] The Decision was intended to limit the influence of foreign corporations and to control the overall flow of foreign capital within each nation's boundaries. It was thus designed to enhance national sovereignty over natural resources and promote indigenous capital formations. The Decision's three principal purposes were to exclude foreign investments from key sectors of each nation's economy,[9] to reduce foreign participation in local companies to a minority position, and to diminish reliance on foreign technology while stimulating the development of local technology. As Decision 24 states,

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[7]The Pact, which was designed to achieve duty-free trade for all products of subregional origin, was originally formed on December 31, 1970 by Bolivia, Ecuador, Colombia, Peru, and Chile. Venezuela joined the Pact at the end of 1973 and Chile withdrew its membership in 1976.

[8]Decision 24 of the Commission of the Cartegena Accord entitled <u>Common Regime for the Treatment of Foreign Capital and on Trademarks, Patents, Licenses, and Royalties</u> went into effect on December 31, 1970. See also Marco Antonio Guzman, "Objectivos de la Decision 24," in <u>Decision 24: Mito o Realidad</u>. (Lima: Centro de Documentacion Informacion Andina. Serie: Grupo Andino en el Debate, 1981), pp. 70-75.

[9]Those sectors which were typically considered off limits to foreign corporations were public utilities, commercial banking, insurance, transportation and the mass media.

> Foreign capital could make a considerable contribution to the economic development of Latin America, provided it stimulates the capitalization of the country where it is established, it facilitates extensive participation of domestic capital in that process and does not create obstacles for regional integration.[10]

Although all member nations were expected to implement Decision 24, enforcement was the responsibility of each country's national authority.

With membership in the Andean Pact, Venezuela adopted for the first time a specific body of legislation covering all areas of foreign investment, technology licensing, and external credit operations.[11] Under the Perez administration, Venezuela quickly developed the reputation as the nation which followed the strictest interpretation of Decision 24.

Decrees 62 and 63, (April 29, 1974) represented the administration's initial measures to implement Decision 24.[12]

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[10]Commission of the Cartegena Accord, Decision 24. Common Rule of Treatment for Foreign Capitals and on Trademarks, Patents, Licenses, and Royalties. December 14-31, 1970.

[11]Decision 24 entered into effect in Venezuela on January 1, 1974 although the regulations were not promulgated until the end of April. Before this period foreign investment in Venezuela was subject to the same laws and regulations which applied to national entrepreneurs.

[12]Office of the President. Decreto 62, Reglamento de los Regimes Especiales a que se Refiere el Capitulo III de la Decision 24 del Acuerdo de Cartegena, Gaceta Oficial, April 29, 1974; Decreto 63, Reglamento del Regimen Comun de Tratemiento a los Capitales Extrajeros y Sobre Marcas, Patentes, Licencias, y Regalias, Gaceta Oficial, April 28, 1974.

Decree 63 established the SuperIntendency of Foreign Investments (SIEX) within the Ministry of Development. SIEX remains the principal supervisory agency for all foreign investment, licensing, and credit operations in all sectors except finance, petroleum, petrochemicals, and tourism.[13] All foreign investments existing as of December 31, 1973 had to file an application for registration with SIEX. After analysis and appropriate recommendation from SIEX each new investment proposal was then sent to an inter-ministerial commission for approval.[14]

SIEX was responsible for making sure all proposals for new investment were consistent with the nation's long-term development objectives. Focus was placed on the amount of employment new investment would generate, the amount of domestic content in the product produced, the region of the country where it was to be located, the type of technology to be introduced, and the extent to which profits would be reinvested in Venezuela.[15]

The new legislation drew a distinction between three

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[13]SIEX: Venezuela: A Guide for Foreign Investment and Technology Licensing in the 1980s, September 1980.

[14]The application required a great deal of information with respect to projected consumption of raw materials, imports, exports, and costs during the first five years. In the case of industries, the prior approval of the project by the Ministry of Development was required.

[15]See FEDECAMARAS, La Inversion Extranjera Directa en Venezuela. Serie Temas Economicos. Unidad de Analisis Economico, March 1991.

types of companies: "foreign corporations" where local capital was less than fifty-one percent, "mixed corporations" where local capital was between fifty-one and eighty percent, and "domestic corporations" where local capital was more than eighty percent.[16] This initial legislation was extended later in the Perez administration. Decree 2442 of August 1975, for example, stated that new firms must be formed as "mixed companies." Should these firms be formed as foreign controlled companies they must agree to conversion to mixed or national companies within a fifteen year period.

In addition, Decision 24 permitted members countries to reserve to national companies certain activities considered sensitive, such as public utilities, communications, and transportation. Decrees 62 and 2031 reserved to national companies the activities of public services, the generation and distribution of electricity, radio, television, Spanish-language newspapers and magazines, internal transportation, advertising, extractive industries, internal marketing, and certain professional services, such as banking and insurance. Foreign companies already operating in these areas were required to convert to national companies prior to May 1,

[16]Foreign controlled companies existing as of the date Decision 24 went into effect and which wished to enjoy certain tariff reduction privileges within the Andean common market were required to transform into mixed or national companies within three years. Limits were also established on the use of internal credit, prohibiting foreign controlled companies from access to internal credit on a long-term basis.

1977.

The government also enacted measures to restrict the repatriation of profits abroad. Foreign corporations were limited to transferring abroad just fourteen percent of earnings from their invested capital plus the prevailing London Inter-Bank Offer Rate (LIBOR).[17] The annual reinvestment of net profits permitted to foreign shareholders without obtaining special permission was limited to five percent of registered capital.[18] In addition, foreign companies not in transformation, (existing prior to 1974 and not having chosen to divest), were limited to reinvesting out of net profits just five percent of their foreign investment base per year.[19] Such reinvestment was not capitalized in the form of newly issued stock but was placed in a special reserve account. This reinvestment reserve was calculated as part of the foreign investment base, thereby increasing the base for future profit remittance as if it had been capitalized. On the other hand, any amounts over five percent

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[17]Re-exportable capital was defined as that formed by the amount of the direct foreign investment registered with SIEX, plus capital gains, re-investments, capital reimbursements, capital increases, investments in development bonds, and non-distributed profits. (SIEX, 1980, op. cit).

[18]In the case of national, mixed, or foreign controlled companies which have agreed to convert to mixed companies, the free reinvestment of profits in excess of the five percent was allowed provided that the national investor also reinvested proportionately in the company.

[19]This five percent did not have to be used every year and could be accumulated.

per year which a foreign company wished to reinvest had to be authorized by SIEX; such re-investments could be either capitalized or added to the special reinvestment reserve account.[20] Decision 24 did allow each country to authorize higher remittance levels for investments in certain sectors.[21]

Foreign credit contracts subscribed by companies operating in Venezuela also had to be authorized by SIEX. Such contracts between a parent company and its dependencies or subsidiaries, were limited to an effective annual rate of interest not to exceed by more than three points the current premium rate of the country of origin of the currency in which the operation had been registered.[22]

The Perez administration also introduced legislation to promote the transfer of advanced technologies to Venezuela.

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[20]SIEX, 1980, op. cit.

[21]Should foreign companies not obtain during specific fiscal years sufficient profits to cover the maximum percentage of automatic reinvestment, they were allowed to defer the exercise of their right to automatic reinvestment and do so in the period during which they obtain sufficient profits or complete these percentages with accumulated profits from previous periods. (SIEX, 1980, op. cit).

[22]Funds earned in excess of the profit or dividend remittance ceilings and the reinvestment ceiling were called "limbo funds." SIEX had permitted capitalization of limbo funds through the use of an account called "reserve for reinvestment" but the 1978 income tax law established a dividend withholding tax on such transactions of twenty percent. The result was that only eighty percent of the blocked profits could be added to the capital base to which future dividends would be subject.

Decree 746 (February 11, 1975) removed practically all vestiges of control that technology suppliers had over their assets.[23] The payment of royalties for "intangible technology" from a foreign controlled company to its parent or affiliate abroad was prohibited and all new technology contracts, even those between non-affiliated companies, had to be approved by SIEX.[24] The Decree also limited the foreign investor's use of patents and trademarks to just five years.[25] After this period, local firms would be free to use the new technology without restrictions.

The Perez administration also moved to assert direct state control over the nation's primary extractive industries. The government first moved to nationalize the operations of foreign corporations in the iron-ore sector. Both United States Steel, which owned the Orinoco Mining Company, and Bethehem Steel, which owned the Iron Mines of Venezuela, had

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[23]Office of the President. Decreto 746, Registracion de Contractos Tecnica, February 11, 1975, Gaceta Oficial, March 1, 1975.

[24]However, this prohibition did not extend to occasional technical assistance or services, even when provided by the parent, and for which the Venezuelan subsidiary may pay compensation. The only requirement in this instance was that the company secure prior SIEX approval. (SIEX, 1980, op. cit).

[25]The decree also banned traditional contract clauses designed to protect the licensor's interests during the control period. Although Decree 63 provided that new contracts entered into may not have a duration of more than five years, Decree 746 of February 1975 limited the duration of old contracts (entered into prior to January 1, 1974) to the same time period.

been operating in Venezuela for decades and together accounted for roughly ninety-six percent of total iron production. The Venezuelan government began negotiating with these firms for nationalization and a final agreement was signed on January 1, 1975 which granted U.S. Steel $86 million and Bethehem Steel $17.6 million for their operations.[26] Both sums were paid over a ten year period at seven percent per annum and exempt from Venezuelan taxes.[27] The C.V.G. Ferrominera Orinoco Corporation was established to oversee all aspects of the iron ore industry in Venezuela. It is a wholly owned subsidiary of the Venezuelan Guayana Corporation (CVG), an autonomous institute of the government.

Nationalizations of the iron-ore sector set the stage for a similar set of negotiations with the petroleum

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[26]Office of the President, Decreto 580, Nacionalizacion de Hierro, December 16, 1974.

[27]The negotiations with United States Steel and Bethlehem went fairly smoothly. This was due, at least in part, to the fact that the companies were able to enter into iron-ore supply contracts with the government which guaranteed continued access to the Venezuelan market. Venezuela agree to continue to sell oil to the parent corporations for up to seven years at a minimum price of Bs 59.89 per metric ton. Moreover, both firms were granted managerial and technical assistance contracts to remain at work in all the main installations. See Fernando Martinez Galdeano. "Nacionalizacion del Hierro," Revista SIC, No. 371 (January 1975), pp. 26-30, and Luis Ugalde, "Nacionalizacion de Hierro," Curso de Formacion Socio Politica, No. 13, Caracas: Centro Gumilla.

corporations.[28] A complex set of negotiation ensued with sixteen formerly private companies, fourteen of which were foreign-owned. Offers were made to the various companies for their plants, equipment, and properties at book value without any payments to companies for lost profits, concession rights, unamortized costs of concession acquisition, or unamortized costs of investments in exploration.[29] Although the foreign owned oil companies estimated the combined value of their assets at more than $5 billion, they agreed to accept about $1

[28]It should be noted that the movement toward greater domestic control over the petroleum industry began long before Perez came to power. The 1943 Petroleum Law set a forty year limit on concessions to foreign companies. At the end of this period all property was to revert to the state. In addition, the royalty tax was raised, imports for the oil industry were made subject to custom taxes, the companies were required for the first time to develop refining capacity in Venezuela, and profits were subject to the state's general taxation powers. In 1958 no new concessions were granted to foreign corporations. A year later the state owned petroleum company, Corporacion Venezolana Petroleo (CVP), was formed. In 1970 a law was adopted which gave the Venezuelan state exclusive authority to determine petroleum export reference prices which were used to determine tax rates. The tax rates were raised from a graduated range of twenty to fifty-two percent to a flat rate of sixty percent. The following year the Hydrocarbon Reversion Law was enacted which called for the return of all existing concessions to Venezuela after their expiration dates. The private oil corporations were also required to pay the government ten percent of the value of their gross investments annually and to submit their plans for exploration, investment and production each year for approval. Lastly, companies were required to either maintain the volume of their exports at close to the record 1970 levels or compensate the government for their failure to do so. See Franklin Tugwell. The Politics of Oil in Venezuela. (Stanford: Stanford University Press, 1975).

[29]The compensation was paid partially in cash with the major part in bonds.

billion in compensation payments.[30] The Venezuelan Petroleum Nationalization Bill took effect on January 1, 1976. At that time, the country's oil industry was consolidated under a single government-owned holding company, PETROVEN.[31]

Perez maintained an economically nationalist posture throughout the remainder of his term in office. Trade and investment policies were structured to favor national over foreign interests.[32] In many respects, Perez sought to put into place at home the new order economic principles which he championed abroad.

Liberalization, 1989-1992.

Although Perez was constitutionally prevented from seeking a second term in office in 1979, he was reelected on December 4, 1988 and reassumed Venezuela's presidency in

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[30]This was part of a package settlement which included a marketing agreement for the international transshipment of the nation's petroleum exports. The exact details of the package are outlined in James Petras, Morris Morley, and Steven Smith. The Nationalization of Venezuelan Oil. (New York: Praeger, 1977).

[31]The holding company is now called Petroleos de Venezuela (PDVSA). It's eleven subsidiaries coordinate the activities of the national oil, gas, petrochemicals, coal, and bitumen industries.

[32]This is reflected in the nation's fifth development plan. CORDIPLAN, V Plan de la Nacion, 1976-1980. January 1976.

January 1989.[33] Perez's return to power, however, has not brought a return to the protectionist policies of the 1970s. Rather, the administration has embarked on a program of extensive trade and investment liberalization.[34] This program is outlined in detail in the nation's Eighth General Plan which was presented to the National Congress in January

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[33]The Venezuelan constitution prohibits incumbent presidents from seeking reelection until ten years after the completion of their first terms.

[34]Liberalization was also pursued by the two administrations that immediately preceded Perez's return to power. The Social Christian (COPEI) administration of Luis Herrera Campins (1979-1984) attempted to reduce state intervention in the economy. Import tariffs were lowered and many non-tariff barriers were eliminated. The Herrera administration also liberalized the nation's investment laws with SIEX procedures for project approval and profit repatriation being streamlined. Moreover, Resolution 324 of Venezuelan Finance Ministry (September 1980) allowed foreign corporations to reinvest amounts in excess of seven percent without declaring a stock dividend by using the "reserve for reinvestment" account. The AD administration of Jaime Lusinchi (1984-1989) also sought to liberalize the nation's foreign investment code and to modify and improve investment incentives. Decree 1200 (July 16, 1986) introduced greater flexibility into several existing SIEX rules, including the "Buy Venezuela" and conversion regulations. Foreign companies were allowed to register investment in their home currencies and a number of sectors, including the agro-industrial, tourist, and construction industries, were exempt from repatriation limits and requirements for ownership divestment. Decreto 1200, Reglamento del Regimen Comun de Tratamiento a los Capitales Extranjeros y Sobre Marcas, Patentes, Licencias, y Regalias Aprobado por las Decisiones 24, 37, 37a, 70, 103, 109, y 169 de la Comision del Acuerdo de Cartegena, Gaceta Oficial, August 29, 1986. The government also established the nation's first debt-for-equity program on April 14, 1987, (Decree 1521) in which public sector debt was sold at about a forty percent discount.

1990.[35] To quote from the Plan itself,

> In accordance with accumulated experience of distinct countries which have developed in the last decades, the most important factor in their accelerated economic development has been opening up to international competition. The creation of a competitive international scheme that overcomes the limitations of the closed economic model that Venezuela has followed, is the only solution to achieve our potential capacity and generate productive wealth. ... This integration will only be successful if it is a radical transformation in the nation's productive structure that assigns employment and investment in those goods and services that we can produce and market competitively.[36]

During his first months in office Perez moved quickly to liberalize the nation's trade regimes.[37] The government has thus introduced a series of measures designed to open up the local economy to the outside world ("La Apertura") and enhance the nation's competitiveness in global markets. The administration announced a program of "industrial reconversion" in an effort to redirect Venezuela's manufacturing sector from import substitution strategies to the promotion of exports.[38] The new trade policy of May

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[35]CORDIPLAN, El Gran Viraje: Lineamiento Generales del VIII Plan de la Nacion, January 1990.

[36]CORDIPLAN, 1990, op. cit.

[37]Juan Jose Monsant, "Un Ano de Politica Exterior," Revista SIC, (March 1990), pp. 68-70.

[38]This program was in accordance with a recently completed Agreement with the IMF. The Agreement also called for cuts in government spending, the deregulation of all prices with the exception of a limited basket of essential goods and services, the deregulation of interest rates, and simplification of the nation's income tax system. The

1989, reflected in Decree 239, called for the gradual reduction of maximum import tariffs from 135 percent in 1989 to fifty percent in 1990, forty percent in 1991, thirty percent in 1992, and twenty percent in 1993.[39] Specific tariffs based on the weight of certain imports were to be abolished in favor of a value-based system. All other import restrictions were almost completely eliminated. In addition, import prohibitions were replaced by a system of levies with a ceiling of eighty percent value-added tax placed on finished products.[40]

The government also moved to eliminate non-tariff barriers such as import licenses and ministerial permits. It is no longer necessary to go through a burdensome bureaucratic process to import goods into the country. Much of the complex maze of regulations which previously governed imports has been waved. In addition, tariff rate brackets are to be gradually

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Agreement authorized credits of up to $4.6 billion to Venezuela. The government has since entered into similar agreements with the World Bank, the United States Export-Import Bank, and Japan's Export-Import Bank. In addition, the government signed a debt restructuring agreement in March 1990 with commercial banks which covered almost sixty-five percent of the nation's total external debt.

[39]The auto industry and certain agricultural products were given special exemptions from these tariff reductions.

[40]Office for the Promotion of Exports, (PROMEXPORT), Boletin Trimestral de Comercio Exterior, Vol. 3, No. 2, July 1991; Alcance de la Politica de Promocion de Exportaciones en Venezuela, February 1989; El Reto de la Politica Economica la Necesidad de Concertacion y el Crecimiento de las Exportaciones, January 1989.

phased out, dropping from forty-one in 1989 to just three by 1993, and import licenses have all but been eliminated.[41] Since mid-1989 only a quarter of manufactured imports have been subject to quantitative restrictions and the number of taxable and banned import items was reduced from 6154 to 200.[42] Quantitative import restrictions on manufactured goods are being phased out over a three year period and similar restrictions on agricultural goods are being phased out over five years. Lastly, decree 1182 eliminated any discriminatory rules against suppliers of goods and services for state companies.

The Perez administration has also put into place an extensive export-promotion program. The government eliminated most export permits and simplified the export incentive system. Special credit and tariff incentives are now available to encourage exports with credits provided to help first-time exporters get their products into overseas markets.[43] Exporters are eligible for a total or partial

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[41] El Universal, "Otorgar Prioridad al Comercial Exterior," August 14, 1991.

[42] Sistema Economico Latinoamericano, (SELA), Informacion Comercial, No. 43, May 1991.

[43] Central Office of Information, Medidas de Caracter Economico Adoptadas por el Gobierno Nacional. Decretos y Resoluciones Periodo desde el Febrero 2, 1989 al Mayo 15, 1989.

draw-back on import taxes.[44] Those exporter who had imported materials for the manufacturing of goods they exported are entitled to a total refund of the taxes they paid.[45]

In addition, a special export-financing fund, FINEXPO, was established in 1989 to grant credits for the export of goods with thirty percent or more national value added. This was reduced to twenty percent in 1990 and will be eventually eliminated altogether. FINEXPO also provides working capital, inventory and post-export financing, and funds for marketing studies and other export activities. The Association of Venezuelan Exporters (AVEX) was also established to assist exporters. The government's new trade policy is possibly best reflected in its decision to bring Venezuela into the General Agreement on Tariff and Trade, (GATT).[46]

Special focus has been placed on expanding regional trade. The five Andean Pact countries have agreed to establish a free trade zone and a customs union by 1992, three years ahead of schedule. Under the agreement each country

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[44]This refers to the procedures through which all or part of the import tax paid on the exported merchandise or the materials used for its manufacturing are returned. This procedure is stated in Article 363 of the regulations governing customs laws.

[45]Firms whose exports do not surpass sixty million dollars a year are entitled to a partial tax refund. CONSECOMERCIO, Boletin Economico Consecomercio. Vol. 1, No. 7, May-June 1991.

[46]Central Office of Information, El GATT y las Ventajas de la Adhesion de Venezuela, Oficina del Comisionado del Presidente Para Asuntos Economicos Internacionales, July 1990.

will eliminate all taxes on goods and services imported from other Andean nations and will establish uniform customs duties for goods imported from third countries. Common external tariffs are to be fixed at levels between five and fifteen percent by January 1994.

The Perez administration also took measures to liberalize the nation's foreign exchange system. The two-tiered exchange rate system, which included a preferential exchange rate for imports, was eliminated in March of 1989 and replaced with a unified, flexible, and free floating exchange rate against the U.S. dollar. This change was designed to promote exports and foreign investment. It led to an immediate devaluation of about one hundred and seventy-six percent as the bolivar lost roughly two-thirds of its purchasing power against the U.S. dollar. The newly unified floating exchange rate is applicable to all foreign investments and debt-equity swaps.

The administration also moved to liberalize the nation's foreign investment code. Decree 727 (January 28, 1990) eliminated virtually all the existing regulations restricting foreign investment.[47] The new foreign investment code is one of the most liberal of any developing country. For

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[47]Decreto 727, Reglamento del Regimen Comun de Tratamiento a los Capitales Extranjeros y Sobre Marcas, Patentes, Licencias, y Regalias Aprobado por las Decisiones 5, 220, y 244 de la Comision del Acuerdo de Cartegena, Gaceta Oficial, January 26, 1990. Under the new rules, which replaced decree 1200, foreign investors were simply required to register their ventures with SIEX. Once in the country they enjoyed most of the rights accorded domestic firms.

Development Minister Moises Naim, it represents "the most important change in Venezuela's posture on foreign investment in the past thirty years."[48] The need for prior SIEX approval for investments was abolished and investors are now able to operate freely in the Venezuelan market, even with access to local capital for short and long-term borrowing.

The Decree also opened up various sectors of the Venezuelan economy which had formerly been reserved for national capital. This includes such sectors as public utilities, transportation, communications, and financial services.[49] The Venezuela Development Corporation was dissolved in late 1989 and its four hundred companies were put up for sale including the national airlines, VIASA and Linea Aeropostal, the state telephone company CANTV,[50] and the state energy corporation ENELVEN. Also, the banking sector was opened up to foreign investors in October 1990 and public banks such as Banco Italo Venezolano and Banco Republico were privatized.[51]

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[48]Moises Naim, Venezuela: An Opening and Expanding Economy. World Link Sponsored Survey, 1990.

[49]El Universal, "Inversion Extranjera en Venezuela Goza de una Adecuada Apertura," August 14, 1991, pp. 2-4.

[50]One of the largest investors is a consortium led by the GTE Corporation which has a five-year, ten billion dollar program to modernize Venezuela's telephone system.

[51]Central Office of Information, Venezuela 1991: Informacion Politica y Economica, February 1991.

The government is also showing a renewed interest in foreign participation in the petroleum industry.[52] Through reinterpretation of Article 5 in the 1975 nationalization law it has now acknowledged that PDVSA can stand as the single largest shareholder in a venture rather than the sole shareholder. Venezuela recently signed strategic association agreements with various foreign corporations which could be seen as a first step toward joint ventures.[53] Foreign involvement in upstream activities will be sought where such partnerships offer value added and the administration is seeking foreign investment in the petrochemicals industry.[54]

Many of the nation's restrictions on foreign investment have also been abolished. Limits on profit repatriation, (previously set at twenty percent of registered investment)

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[52]Philippe Erand, Perspective for Venezuela in the 1990s: Investment Outlook and Opportunity in Petrochemicals. Caracas: Consejo Nacional de Promocion de Inversiones, 1991.

[53]Agreements were signed with British Petroleum, Verba Oel of Germany, Elf Aquitaine of France, Ente Nazionale Idrocarburi of Italy, and Amoco Corporation of the United States. In addition, Conoco is to sign a joint venture to produce and refine a heavy oil with PDVSA. Shell Oil, Exxon, and Mitsubishi are negotiating participation in a three billion dollar offshore liquid natural gas project, while Shell, Verba Oel of Germany and Ente Nazionale Idrocarburi of Italy are negotiating participation in coal mines.

[54]"Venezuela Now Woos Oil Firms it Booted in 70s Nationalization," Wall Street Journal, October 2, 1991, p. 1. Pequiven (the state petrochemical company) plans to expand petrochemical production to ten million metric tons at a cost of $5.1 billion. Due to limited funds, Pequiven is actively seeking joint venture partners including foreign firms. The Eastman Kodak Company signed a letter of intent to create a two hundred million dollar joint production venture.

and the reinvestment of capital, (previously held to seven percent), have been eliminated.[55] Moreover, foreign operations are now exempt from any obligations to generate employment, to locate in underdeveloped areas, to incorporate national value added, to promote import-substitution industries, or to bring new technologies into the nation. Legislation was introduced to protect intellectual and industrial property rights according to international standards.[56]

The National Council for Investment Promotion (CONAPRI) was established on October 31, 1990 to actively promote investment in Venezuela. CONAPRI offers a variety of services to investors such as identifying potential joint venture partners, providing professional expertise in areas of investment financing, and assisting investors with the processing of applications and permits. Two industrial free zones were also established to promote foreign investment and

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[55]Royalty payments between subsidiaries and parent companies are now allowed. It should be noted, however, that surplus profits must be invested in government bonds or new businesses. FEDECAMARAS, Reforma al Reglamento Que Rige a Las Inversiones Extranjeras. Serie Temas Economicos. Unidad de Analisis Economico, June 1990.

[56]The revisions reflected changes in the Cartegena Accord on March 1991. (See Decisions 291 and 292). La Comision del Acuerdo de Cartegena, Decision 292. El Regimen Uniforme de Empresas Multinacionales Andinas. March 1991, Gaceta Oficial, April 4, 1991; Decision 291. Regimen Comun de Tratamiento a los Capitales Extranjeros y Sobre Marcas, Patentes, Licencias, y Regalias. Gaceta Oficial, April 4, 1991.

the transfer of technology.[57] Under the "maquiladora program" private firms, which can be completely foreign-owned, are allowed to import raw materials and semi-finished goods duty free. They are then able to complete the manufacturing process in Venezuela and export the finished product.

The Perez administration also expanded the nation's debt-equity conversion program. Decree 86 (March 15, 1989) authorizes the conversion of discounted debt into Bolivar Funds that can be used to finance the domestic component of an investment project.[58] The Central Bank of Venezuela (BCV), which previously redeemed debt at one hundred percent of its face value, now redeems it at a discounted value determined at monthly auctions and will pay the market-based exchange rate rather than the previous low official exchange rate. Local currency obtained in a swap can only be used to finance the domestic component of the investment project. The project's imported component must be financed with foreign reserves, either through capital contributions or loans.[59]

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[57]The industrial free zones are located at Margarita Island and Paraguana in the State of Falcon.

[58]Office of the President, Decreto 86, Regimen Para la Convesion de Deuda Externo en Inversion. Gaceta Oficial, March 15, 1989.

[59]It is also important to note that foreign investors participating in debt-equity swaps are still subject to a dividend remittance restriction of ten percent during their first three years and prohibitions against capital repatriation for their first five years. Capital repatriation during the following eight years is limited to 12.5 percent of the investment. Special emphasis was placed on such export

The liberal trade and investment policies of the Perez administration since 1989 contrast sharply with the protectionist measures of Perez's first term in office. Rather than shielding domestic producers from external pressures, the reform program is designed to restructure the economy toward a market-oriented, diversified, and export-competitive economy. Perez now advocates greater integration of the Venezuelan economy in global product and capital markets.[60]

## Toward Self-Reliance in Jamaica, 1972-1980

A similar shift from economic nationalism to neo-liberalism is evident in Jamaica. When Michael Manley first became prime minister in 1972 he was committed to restructuring Jamaica's foreign economic policies.[61] The new

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industries as agriculture, agro-industry, pulp and paper, mining, capital goods, chemicals, petrochemicals, electronics, biotechnology, aluminum, metallurgy, construction, and transport services. As of July 1990 investors have been able to use debt-equity swaps to help finance public mega-projects like the Guayana Corporation. After thirteen years there are no limits on the re-export of capital.

[60]The government entered into a three year extended fund facility agreement with the IMF and also receives significant World Bank and Inter-American Development Bank funding. In December 1990 the government and the commercial banks, within the context of the Brady Plan, concluded a debt reduction agreement for roughly twenty billion dollars.

[61]The new administration also made a series of domestic reforms. A wide range of initiatives were undertaken to promote peasant and worker ownership including land reform and the creation of co-operative farms, and to achieve a more

PNP government explicitly rejected the "Puerto Rican Model" of the past which assumed industrialization required massive foreign investment.[62] In its place Manley called for greater "economic independence" and "self-reliant development."

Like Perez, Manley assumed a high profile role in international forums, becoming a major spokesperson for Southern efforts to reform the global economy. Jamaica played a key role in North-South negotiations; it was one of the nineteen countries selected to represent the interests of the developing world in negotiations with the European Community leading to the Lome Convention and the Law of the Seas negotiations.[63] At the Fourth UNCTAD conference in Nairobi, the Jamaican delegation led the push for commodity indexation

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equitable distribution of wealth, including the institution of food subsidies, rent controls, free education, a national minimum wage, and loans to small businesses.

[62]The Puerto Rican model was strongly influence by the writings of West Indian economist W. Arthur Lewis. See his "The Industrialization of the British West Indies," Caribbean Economic Review, No. 2, (May 1950), pp. 1-61. Lewis argued that industrialization was necessary in the Caribbean because the agricultural sector alone could not provide for the needs of the expanding populations. As such, continued export agricultural specialization would doom the region to mounting unemployment and poverty. To avoid this, he advocated a program by which manufacturing would absorb the growing labor force of the area. He showed that, despite the region's small size, an impressive array of industries were in fact commercially feasible. Yet because of the small size of domestic economies and the shortage of capital, industrialization would only be possible through attracting foreign capital.

[63]Jamaica's Role in the Movement Towards the New International Economic Order, Ministry of Foreign Affairs, October 1978, p. 7.

schemes and a code of conduct for transnationals. Jamaica also became co-chair of the Group of 77 and vice president of the Non-Aligned Movement, (NAM). Within NAM, Jamaica sided with the more radical faction which stressed the common interests of all developing nations and advocated fundamental changes in global economic relations.[64]

Clearly this high profile role in international forums had considerable symbolic value for the new government. However, Manley went beyond this activist stance in global forums to actually put into place concrete trade and investment reforms at home; reforms which challenged the core principles of global liberalism.

The Manley administration first brought imports under a tight system of licensing. The government established import controls on basic foods and drugs in late 1972 and these

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[64]Evidence of this realignment was reflected in Jamaica's voting record in the United Nations. Whereas under the JLP the Jamaican government tended to vote with the Western bloc, under Manley it tended to vote with the "progressive" third world states. For a more detailed analysis of Jamaican foreign policy during this period see Wendell Bell, "Independent Jamaica Enters World Politics: Foreign Policy in a New State," Political Science Quarterly. Vol. 92, (Winter 1977), pp. 683-703; Vaughan Lewis, "The Commonwealth Caribbean Policy of NonAlignment: A Note," in Basil Ince, (ed.) International Relations in the Caribbean. (Trinidad: Institute of International Relations, University of the West Indies, 1977); Vaughan Lewis, "Issues and Trends in Jamaican Foreign Policy: 1972-1977," in Carl Stone and Aggrey Brown (eds.) Perspectives on Jamaica in the 1970s. (Kingston: Jamaican Publishing House, 1981), pp. 28-43; and Basil Ince, "The Caribbean in World Politics," in Basil Ince (ed.) International Relations in the Caribbean. (Trinidad: Institute of International Relation, University of the West Indies), pp. 28-43.

measures were expanded to cover other imports in early 1974. Thereafter, the total value of imports was subject to ceilings which were adjusted occasionally depending on the nation's projected payments position.[65] The Export Development Fund (EDF) was also established to support the production and sale of non-traditional exports.

The new government also attempted to diversify Jamaica's trade relations and thus lessen its dependence on the United States market. Jamaica was a major force behind the transformation of the existing Commonwealth Caribbean free trade area into a customs union (CARICOM) with the hope that it would eventually become a common market.[66] CARICOM's mission was to gradually reduce tariffs and other trade restrictions among its members. The government also made a series of overtures toward other nations in Latin America and toward the Soviet Union and the nations of Eastern Europe.

Foreign exchange was also brought under a tight system of control. The Jamaican dollar, which had previously been freely convertible and pegged to British Sterling, was pegged

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[65]Jennifer Sharpley, "Jamaica: 1972-1980," in Tony Killick (ed.) The IMF and Stabilization: Developing Countries Experience. (New York: St. Martins, 1984), pp. 115-163.

[66]CARICOM was designed to foster internal trade liberalization and the coordination of economic policies and planning among member states. In addition to Jamaica, it included Guyana, Trinidad and Tobago, and Barbados.

to the United States dollar in January of 1973.[67] The convertibility of the Jamaican dollar was restricted and exchange controls tightened.[68] The exchange rate was held constant until April 1977 and major sources of foreign exchange were brought under state ownership and control.

The Manley administration also attempted to redefine the nation's relations with the transnational corporations operating in Jamaica. A foreign investment code was established to control and monitor the activities of these businesses. The "Principles and Objectives" of the PNP stated that,

> Foreign capital is welcome in Jamaica and is assured a fair return on investment and fair and consistent treatment provided: the investment is consistent with national purposes ... it operates on the basis of good corporate citizenship ... [and] it is willing, if required, to enter into partnership with local interests (the state, private, or both) as may be determined by the state in the interests of working people.[69]

Manley also moved to reduce foreign ownership in key sectors of the economy. He noted that the commanding heights of the economy were almost exclusively in foreign hands. As such, although the nation had achieved political independence it remained economically dependent on foreign interests. The

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[67]The rate was pegged at US$1.10 per Jamaican dollar. This reflected the reorientation of the Jamaican economy toward the United States market.

[68]Sharply, 1984, op. cit., p. 124.

[69]People's National Party. Principles and Objectives of the People's National Party, February 1979.

government nationalized (with compensation) various industries, including foreign owned public utilities (electricity, telephone, and public transport), a number of sugar facilities, half the hotel capacity, three banks, (Barclays, Citizens, and Montreal) and the sole cement factory. Other firms were brought under partial state ownership.[70]

The government's most far-reaching and controversial measures were related to the bauxite industry. Jamaica played a leading role in forming the International Bauxite Association (IBA) in March of 1974. Manley argued that the IBA, which was designed to unify and coordinate the actions of bauxite-producing nations,[71] would strengthen their position vis-a-vis the transnationals.

The government also sought to radically restructure its relations with the American and Canadian bauxite and aluminum companies operating in Jamaica: Kaiser Bauxite Company, Reynolds Jamaica Mines, the Aluminum Corporation of America (Alcoa), Anaconda, and the Aluminum Corporation of Canada (Alcan). Throughout the 1960s these firms had been a principal source of economic growth for the nation. Their overall contribution to the nation's well being, however, was

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[70]People's National Party, "Democratic Socialism: The Jamaican Model," Gleaner Supplement, December 9, 1974.

[71]The IBA was composed of Australia, Guinea, Guyana, Jamaica, Sierra Leone, Suriname, and Yugoslavia.

limited in two respects. First, the bauxite industries provided very little stimulant to other sectors of the economy. There was only limited processing of bauxite in Jamaica itself and aside from labor, few inputs were purchased from domestic suppliers. Secondly, government tax revenues from the bauxite industry were also limited as the companies consistently undervalued the price of Jamaican ore.[72]

In an attempt to increase revenues from the mining of bauxite and the production of aluminum, the Manley administration called for a new set of negotiations with the bauxite companies. After months of inconclusive talks, the government abrogated previous agreements and imposed a production levy on all bauxite mined or processed in Jamaica. The levy, instituted in mid-1974, was based on the market price of aluminum ingot sold in the United States and was set at 7.5 percent of the average realized price per short ton.[73] This reflected a four hundred and eighty percent increase, (from \$2.50 to \$14.51 per ton) in the tax rate and led to a

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[72]In 1968, for example, taxation was based on a price of J\$7.50 per ton, whereas the U.S. companies reported a value of U.S.\$15.00 per ton (J\$1-U.S.\$1.10) to U.S. customs authorities. The Jamaican government received just eighteen percent of its tax revenue from the bauxite industry during this year.

[73]This differed from the previous method of taxing the bauxite firms which was based largely on negotiation between the government and the companies. In this way it circumvented the problem of determining the true price of the bauxite when it was sold from one subsidiary of the parent firm to another.

sevenfold increase in the revenue from bauxite (an additional $160 million) in the first year.[74]

The PNP government also attempted to bring the bauxite industry under national ownership and control. The government negotiated joint venture agreements with the foreign firms,[75] purchasing a fifty-one percent equity share of those companies solely involved in bauxite mining (Kaiser and Reynolds) and roughly seven percent of those companies involved in both mining and aluminum processing (Alcan and Alcoa).[76] The government also gained control of lands owned by the bauxite

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[74]The bauxite levy produced an instant increase in government revenue from $35 million in 1973 to $200 million in 1974. The contribution of the bauxite industry to government revenue increased from twelve percent to thirty-five percent and the returned value of bauxite-alumina in total Jamaican export earnings rose from thirty-five percent in 1973 to seventy-five percent in 1979. (Kari Polanyi Levitt, Jamaica: Lessons from the Manley Years, Kingston: Maroon Pamphlets, No. 1, 1984, p. 6). The government also took steps to prevent the companies from shifting production out of Jamaica. The aluminum firms were required to maintain the production levels established by the Jamaican government or to pay taxes on that level whether or not it was actually maintained. (Omar Davies, An Analysis of Jamaica's Fiscal Budget (1974-1983) with Special Reference to the Impact of the Bauxite Levy. Kingston: University of the West Indies, Department of Economics Occasional Paper Series, No. 2, 1984).

[75]While the government assumed minority representation on the executive committees of the now locally incorporated companies, management was to remain with the companies for ten years.

[76]Under the agreement, the Jamaican government would pay for its share over a ten year period and, in return, would guarantee the companies sufficient raw material resources to carry out their operations at existing levels for forty years. It is important to note that the companies kept their refining plants and also maintained their superiority in technology, control of the market, and access to capital.

companies.[77]

Manley and the PNP were overwhelmingly reelected in 1976.[78] The magnitude of the victory encouraged the administration to continue, and in some respects, step up its economically nationalist policies. Although the country had begun to experience severe balance of payments deficits and a run on foreign reserves, the government resisted various IMF proposals throughout 1976 and the early part of 1977. While the economic crisis was severe, the IMF solution was considered counterproductive and likely to reinforce the country's structural dependency. Declaring "we are not for sale,"[79] Manley continued to champion the twin goals of economic sovereignty and self-reliance.

In early 1977 the government appointed a task force to prepare an Emergency Production Plan (EPP) as an alternative to the IMF program.[80] The political rationale of the EPP, also referred to as the "Peoples Plan" or the "Democratic Socialist Alternative," was that the burden of the foreign

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[77]All lands were purchased by the government at their book value then leased back at seven percent of the purchase price.

[78]The PNP won fifty-seven percent of the vote and forty-seven of sixty seats in the House of Representatives.

[79]Michael Manley. "Not for Sale," Speech at the Thirty-Eighth Annual Conference of the People's National Party, September 19, 1976.

[80]National Planning Agency, Emergency Production Plan 1977.

exchange crisis should be shared equally by all classes rather than falling disproportionately on the poor. A task force, primarily comprised of economists and social scientists from the University of the West Indies (UWI), was established to formulate the EPP.[81] The task force set up ten working groups to focus on different sectors of the economy and society. These groups evaluated existing capacity, set approximate 1977 production targets, and estimated resource requirements for meeting these targets.

The task force also sought input from the local population. Popular organizations were urged to submit their suggestions for the nation's economic development strategy. A public education program was launched which included "Peoples Forums" to discuss the meaning of self-reliance and "democratic socialism" and meetings with various community groups to ensure their participation in the Production Plan.

The EPP was presented to Parliament in April 1977. The Plan called for greater reliance on Jamaica's natural and human resources and changing the economic structure of the country to promote internal integration, agricultural production and small scale activity. Special emphasis was placed on developing intersectoral linkages within the economy. The manufacturing sector, for example, would rely

[81]Some of the UWI group were eventually brought into the formal bureaucracy on a permanent basis. The most notably example of this was Norman Girvan's appointment as head of the National Planning Agency.

primarily on inputs from the agricultural and mineral sectors.

The EPP also called for greater restriction on trade, foreign exchange, and foreign direct investment. The State Trading Corporation (STC) was set up to oversee imports of most basic items.[82] The STC was to be the major importer of all goods necessary for national development. This was expected to help conserve scarce foreign exchange and stabilize the prices of consumer commodities.[83]

A new import ceiling of J$600 million was established for 1977, with approximately J$200 million allocated for petroleum products. This was about J$100 less than the 1976 figure. In order to be eligible for government assistance, private firms were required to use relatively small quantities of foreign exchange per unit of additional output, adopt labor intensive production methods, and be orientated towards the provision of basic necessities for the population.

The Manley administration also moved to further diversify

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[82]This included food, drugs, medical supplies and equipment, basic building materials, and selected agricultural chemicals. In addition, one hundred and twenty-eight items were placed on the list of prohibited imports.

[83]The STC was designed to operate as a holding company with all equity and ownership being vested in the government. The activities of the corporation were being carried out on a phased basis through a number of subsidiary companies, each specializing in the importation of specific groups of commodities and operating along commercially viable lines. However, the STC was responsible for the overall policy formulation of all subsidiary companies to ensure that policies reflected the development strategy specified by government. National Planning Agency, Economic and Social Survey, 1977.

the nation's trade and financial relations toward the "socialist," social democratic and NonAligned nations. In addition to Eastern European countries, the government sought increased trade relations with such "progressive" developing nations as Mexico, Venezuela, China, and Tanzania.[84]

Although the government initially rejected proposals to devalue the Jamaican dollar, it did introduced a two-tiered exchange rate in April 1977. A new devalued rate was used for many export operations in an attempt to make them more competitive. Luxury items were also put at the new devalued exchange rate to discourage non-essential imports. The old lower rate was used for many staple imports of vital importance such as basic foods and medicines as a means of protecting the poor from sharp price increases.[85]

The EPP was relatively short-lived. Within three months Jamaica's economic downturn had reached crisis proportions and the administration decided to enter into a new round of negotiations with the IMF. A Standby Agreement was concluded

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[84]An agreement was reached with the Mexican government to set up a merchant shipping line which would be twenty-five percent Mexican-owned and seventy-five percent Jamaican-owned. As noted earlier in this chapter, a similar agreement was reached with Venezuela for the construction of an aluminum smelter.

[85]The government also imposed strict foreign exchange rationing which included the suspension of foreign loan repayments for eighteen months. Commercial banks could only deal in foreign exchange as agents of the Bank of Jamaica.

with the IMF in July 1977.[86] The agreement called for the removal of some import and foreign exchange controls and a forty percent devaluation of the Jamaican dollar. The dual exchange rate was retained. The agreement included $74.6 million in foreign exchange support to be disbursed over a two year period.[87]

Six months later the government failed to meet one of the IMF's performance tests[88] and the Agreement was immediately suspended. Negotiations for a three year Extended Fund Facility (EFF) Agreement ensued and were completed in May 1978. The new agreement, which Manley later called "one of the most savage packages ever imposed on any client government of the IMF,"[89] called for the continued deregulation of the economy by removing price supports, subsidies, import restrictions, and exchange controls.[90]

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[86]In the period 1974-1976 Jamaica had used all the unconditional financing available from the IMF, including the oil facility and compensatory financing. At the same time, the new Carter administration in Washington offered a package of assistance to Jamaica which was conditioned on the government reaching agreement with the IMF.

[87]Ministry of Finance, Ministry Paper No. 28, "Standby Agreement with the International Monetary Fund," August 1977.

[88]On December 15, 1977 the nation's net domestic assets were J$9 million above the ceiling of J$355 million.

[89]Michael Manley, Jamaica: Struggle in the Periphery. (London: Third World Media Lmt., 1982), p. 160.

[90]Ministry of Finance, Ministry Paper No. 34. "Extended Fund Facility Arrangement with the International Monetary Fund," July 1978.

The Agreement also called for a shift toward an export-promotion policy, including the establishment of tax incentives, priority access of exporters to foreign exchange, and a steep devaluation. As part of this agreement the government put in place a Certified Exporter Scheme (CES) in late 1978. The Scheme allowed exporters preferential access to foreign exchange after allocations were made for debt-servicing, fuel, food and drugs.[91] In addition, the Export Development Fund (EDF) was established in June 1979 to provide foreign exchange for certified exporters for the purchase of raw materials and spare parts. Repayment was made in foreign currencies from the proceeds of export sales.[92] Both the Certified Exporters Scheme and the Export Development Fund specifically targeted exporters of non-traditional goods.[93] The import licensing system of the Trade Administrators Department gave priority to importers producing for the export market. Emphasis was also placed on providing market research

[91]National Planning Agency, Economic and Social Survey 1978, p. 4.2. To qualify for certification under the scheme export sales had to have a local value added content of forty percent, the producing entity had to be capable of achieving a growth target of at least twenty percent or US$200,000, whichever was lower, and if sales were exclusively to the overseas market, the entity had to be a net foreign exchange earner.

[92]Ministry of Finance, Ministry Paper, "Second Year of Programme of Extended Fund Facility Arrangement with the International Monetary Fund," May 2, 1979.

[93]National Planning Agency, Economic and Social Survey, 1979, p 3.3.

and technical and financial assistance through the Jamaica National Export Corporation (JNEC), the Jamaican Development Bank (JDB), and the Bank of Jamaica (BOJ).[94]

Lastly, the EFF called for a unification of the foreign exchange rate or an immediate forty-seven percent devaluation of the Jamaican dollar. It also called for bi-monthly devaluations to total another fifteen percent over the next year.[95] This was designed to stimulate the production of commodities for export.

Following the completion of the first year under the EFF in which all selected performance criteria were satisfied, the Government entered into a new extended arrangement with the IMF in May 1979.[96] Relations with the IMF, however, were a continued source of controversy and division within the PNP. Anti-IMF sentiments reached a peak in December of 1979 when

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[94]National Planning Agency, Economic and Social Survey 1977, p. 46.

[95]This resulted in a decrease in the value of the Jamaican dollar from slightly above parity with the U.S. dollar to a rate of J$1.76/U.S.$1. The total devaluation over 1978 amounted to 46.8 percent on the Basic Rate and 24.5 percent on the Special Rate. National Planning Agency, Economic and Social Survey, 1978, p. i.

[96] Ministry of Finance. Ministry Paper No. 26, "Extended Fund Facility Arrangement with the International Monetary Fund," June 1979. The IMF agreed to provide the equivalent of SDR260 million over the ensuing two years, including the equivalent of about SDR227 million from its Supplementary Finance Facility, (SFF). Bank of Jamaica, Report and Statement of Accounts for the Year Ending December 31, 1979, and National Planning Agency, Economic and Social Survey 1979, p. 3.1.

Jamaica once again failed one of the Fund's performance tests.[97] The IMF immediately suspended the EFF, having disbursed only $172 million of the intended $220 million. The IMF then indicated a willingness to grant a waiver of the performance test under a modified interim Stand-by Agreement covering the period from April 1980 to March 1981 which would have called for greater fiscal austerity and devaluation of the currency.

In January 1980 the government rejected the IMF's condition for a waiver from the performance tests. By March the PNP's National Executive Council (NEC) concluded that it was simply impossible to remain consistent with the Party's long-term development objectives while continuing to do business with the IMF. The NEC voted by a two to one majority to break off negotiations for a new interim Stand-by Agreement with the IMF. On March 24 Manley instructed the cabinet to reaffirm the decision of the party leadership and once again

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[97]As of December 31, 1979 the country was US$130 million under the projected target for net international reserves. The IMF had set the limit at -$380 million and Jamaica's real position was -$500 million. The reasons for the failure related mainly to extraneous factors over which Jamaica had little control: oil price increases in 1979 in excess of what had been anticipated, higher international inflation which increased the nation's import bill, and higher interest rates which elevated debt service payments. IMF officials defined the problem as one of fiscal "mismanagement," however, and demanded J$300 million in budget cuts (about twenty percent of government expenditure excluding debt service) as the condition for a waiver of the performance tests and the approval of a modified agreement. (Bank of Jamaica, 1979, op. cit).

submitted an "Alternative Self-Reliant Development" Plan.[98]

The non-IMF plan called for increased state regulation of the economy and tight controls to protect local industries and agricultural producers. The central components of the plan were increasing domestic food production in order to save foreign exchange, increasing exports of manufactured goods as well as agricultural products, (which required the preferential allocation of foreign exchange to export industries), increased bauxite and aluminum production by bringing the existing facilities into full production and building a new state-owned aluminum plant in cooperation with other countries, and reducing energy imports through an energy conservation and development program.[99]

Manley also called for a new round of general elections ostensibly to give the Jamaican people the chance to decide the nation's future development path. The PNP campaigned for the self-reliant path[100] while the Jamaican Labor Party (JLP) proposed continued relations with the IMF. In an intense political atmosphere, marked by widespread partisan conflict and violence, the PNP suffered a resounding defeat.

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[98] People's National Party. The Way Forward: An Alternative Self-Reliant Economic Path.

[99] People's National Party. The Non-IMF Path: Report of the Economic Affairs Commission, March 8, 1980.

[100] People's National Party. Foundations for the Future. 1980 Election Manifesto, 1980; We Put People First: A Programme for Taking Jamaica into the Twenty-First Century, 1989 Election Manifesto.

The JLP captured fifty-eight percent of the vote and fifty-one of the sixty legislative seats. JLP leader Edward Seaga was installed as the new prime minister and Manley began what would ultimately be a nine-year hiatus from political power.

Reintegration in the Global Economy, 1989-1992

In February 1989 Michael Manley once again led the People's National Party to an impressive electoral victory, surpassing even their own best hopes.[101] Since reassuming the position of prime minister, however, Manley has shown no intention of readopting the economically nationalist policies which characterized his first administration. In fact, the new government immediately declared that it would continue the foreign economic policies of the previous JLP government.[102]

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[101]The PNP won fifty-seven percent of the popular vote and forty-five of the sixty seats in the House of Representatives.

[102]The JLP government had attempted to reduce the role of the state in the economy and to restore preeminence to the private sector. Although critics sometimes complained that the government was slow in carrying out market-oriented reforms, important changes in the nation's trade and investment policies were introduced. The government adopted an export-oriented strategy, promoting traditional exports, and sought to attract foreign investment to the island. Between 1981 and 1988 the Seaga Government entered into five IMF Agreements and three Structural Adjustment Agreements with the World Bank. The Government first sought to liberalize trade through a simplification of the tariff regime and a reduction in the number and level of tariffs and quantitative restrictions. The Seaga Government also enacted measures to attract direct foreign investment. It offered tax relief, overseas marketing assistance, automatic remittance of profits and invested capital for registered investments, cash grants, credit insurance, guaranteed lines of credit, low-interest

Manley also expressed a willingness to respect the existing agreement with the IMF[103] and to put in place a series of programs to liberalize trade and attract foreign investment.[104]

The Manley administration first introduced a program of trade liberalization. The existing tariff system was faulted on a number of counts: it was complicated, the rates were applied inconsistently, the range of rates was too wide, (between five percent and two hundred percent), and the base was too narrow, since a large proportion of imports did not attract duty as a result of various exemptions, remissions, and concessions. The overall effect of this was to frustrate the development and growth of the economy. While inefficient

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loans, import duty exemptions, and off-shore financial center incentives. The Jamaica National Investment Promotions (JNIP) was also established to encourage foreign investment across a wide range of sectors. JNIP was designed to provide a comprehensive range of services to investors including locating sites and factory space, obtaining building permits, and providing technical data related to various types of investment projects. The JLP government also expanded the incentives offered by the nation's industrial free zones. Under the Jamaica Export Free Zone Law of 1982 transnational firms were exempt from taxes on profits, custom duties, work permits, Bank of Jamaica regulations relating to the movement and retention of foreign exchange, quantitative restrictions on imports, and import licensing procedures. National Planning Agency. Structural Adjustment and the Jamaican Economy, 1982-1987.

[103]This agreement remained in place until January 1990 and was then replaced by a Stand-by Agreement which ran until March 31, 1991.

[104]Ministry of Finance. Ministry Paper No. 52, Economic Programme 1989-90. September 12, 1989; Parliamentary Debate, "Policies for Stability and Economic Growth," March 14, 1989.

and non-competitive manufacturers benefitted from high protective tariffs, it was argued, the system did not encourage the growth of efficient producers.[105]

A Tariff Reform Program was instituted in order to simplify the tariff regime and reduce the number and levels of tariffs.[106] In addition, the number of conditional exemptions was reduced through the removal of fifty-six of the original seventy-seven categories and by the imposition of duty ceilings on these imports of between five and thirty percent. Several agricultural items from the list of goods attracting high protective stamp duties were removed.[107] A phased reduction of custom tariffs was also introduced and the remaining tariff exemptions, reference prices, and import monopolies were eliminated.[108]

Expanding exports was declared a major priority of the new administration.[109] The government streamlined

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[105]Ministry of Finance, Budget Debate, 1989-90. June 8, 1989. Jamaican Information Service, November 1989.

[106]People's National Party, Policy Paper No. 4, 1989. By 1991 the maximum tariff was to be five percent on imports for utilities, ten percent on raw materials, twenty percent on capital items and thirty percent on consumer goods, subject to the limits imposed by the rates determined by CARICOM in the common external tariff. (Budget Debate, 1989-90, op. cit.)

[107]Ministry of Finance, 1989, op. cit.

[108]Planning Institute of Jamaica, Jamaica's Five Year Development Plan 1990-1995, 1990, p. 21.

[109]Ministry of Finance and Public Service. Budget Debate, "The Challenge of the 90's: Jamaica's Economic Programme 1990-1991." January 30, 1990, Jamaican Information

institutional and administrative barriers to the growth of export trade and sought to channel investment resources to the training and infrastructure required to support export activities.[110] The "Export Rebate Scheme,"[111] was replaced with an "Import Duty Drawback Scheme" in which exporters were reimbursed for the import content of their products.[112] The Export Development Fund (EDF) was also established to facilitate the importation of raw materials, spare parts, intermediate goods, and equipment for the development of Jamaica's non-traditional exports. Eligible users are those companies which can demonstrate to the EDF that they are exporters of non-traditional manufactured goods or agricultural products or that they are linkage firms engaged in the manufacture of products used as inputs by exporters.[113]

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Service, February 1990.

[110]Planning Institute of Jamaica, 1990, op. cit., p. 21.

[111]This scheme, which provided a subsidy to exporters equivalent to 7.5 percent of the invoice value of goods, had insulated the manufacturing export sector from rising domestic costs relative to foreign competitors.

[112]Planning Institute of Jamaica, 1990, op. cit., p. 21.

[113]Included as eligible exporters are "trading companies" which export manufactured or agricultural goods. Bank of Jamaica, Central Bank and Jamaican Economy 1960-85, Research and Development Division, p. 54; Ministry of Development Planning and Production, Budget Debate 1990-91, May 31, 1990; Jamaican Information Service, June 1990; Parliamentary Debate, January 31, 1990; Jamaican Information Service, February 1990.

The Manley administration has also been committed to the full development of CARICOM. It has given priority attention to the harmonization of the customs tariff and the further development of the rules of origin, the CARICOM enterprise regime, and the Caribbean Stock Exchange.[114]

Phased liberalization of exchange controls, begun under the JLP administration, has been expanded in an attempt to encourage capital repatriation to Jamaica. This has resulted in the periodic devaluation of the Jamaican dollar.[115] The government also introduced foreign exchange accounts in the local banks. Since July 1, 1990, individuals living either in Jamaica or abroad have been able to open hard currency accounts in local commercial banks.[116] Lastly, a "Retained Accounts Scheme" was established tc allow exporters easy access to foreign exchange in order to make certain critical

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[114]CARICOM member states have been working since 1987 to create a Common External Tariff for all commodities imported from third countries. Concurrent with this exercise is the restructuring of the rules of origin, which is intended to deepen the regional industrialization process by establishing specific qualifying criteria for CARICOM goods and which will encourage the use of regionally available materials. (Planning Institute of Jamaica, 1990, op. cit., p. 85).

[115]The Jamaican dollar was devalued to $J6.50 to $U.S.1 in November 1989, and then to $J7.00 to $U.S.1 in January of 1990. It has continued to fall precipitously since this time, reaching J$20 to US$1 by the end of 1991.

[116]These foreign currency "A" accounts were allowed as either term deposits (certificates or fixed deposits) or as demand deposits.

payments.[117]

The Manley administration also adopted measures to attract investment capital to the island. Such investment, which can be one hundred percent foreign owned, is now considered a "critical component" of the PNP's economic development strategy. As part of this strategy a wide range of pro-investment legislation has been adopted, including laws which guarantee the right of profit remittance, repatriation of capital, protection against expropriation, and infrastructural support.[118]

Although certain areas of the economy have traditionally been reserved for local investors, the Bank of Jamaica is now able to approve non-resident investments in many of these sectors.[119] Preferential treatment is given to non-resident investors in those cases where the investment will service overseas markets to which the non-resident investor already has access, the operation will involve the processing or

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[117]The program allows the importing of motor vehicles and other requirements for export production. It also has a built-in incentive for increasing exports as access to foreign exchange is tied to annual increases in exports.

[118]Repatriation of capital by non-residents will be permitted at the prevailing official rate of exchange. Bank of Jamaica, Policy Statement on Foreign Investment in Jamaica.

[119]Those primary areas normally reserved for resident investors include internal distributive trade, transportation, legal services, communications, real estate, advertising and public relations, quarrying, and preparations for the domestic market such as agriculture, garments, hand crafts, printing and publishing. Bank of Jamaica, Policy Statement on Foreign Investment in Jamaica. p. 4.

assembly of indigenous raw materials or components which have been acquired either locally or if overseas, the investment will result in net savings of foreign exchange to the economy, the investment has the potential to generate employment opportunities and the transfer of technology, and the investment conserves foreign exchange by producing goods and/or services locally which are normally imported.[120]

The government has placed particular emphasis on attracting firms to the nation's export free zones in Kingston, Montego Bay, and Spanishtown. Various tax concessions and non-tax incentives were extended, including the removal of licensing requirements for imports, automatic work permits, exemption from custom duties, quotas and exchange controls, and subsidized rates for factory and warehouse space. The administration also moved to privatize state-owned enterprises. A British company was allowed to purchase a controlling interest in the Jamaica Telephone Company and a number of hotels were sold to foreign investors.

Lastly, the government has aggressively promoted the nation's debt-for-equity program first introduced in October 1988.[121] Under this program, debt owed by Jamaica to

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[120]Bank of Jamaica, Policy Statement on Foreign Investment in Jamaica, p. 4.

[121]Central Bank of Jamaica. Program for the Conversion of Jamaica's External Debt into Equity Investments. US$33 million of debt was converted into equity financing between September 1989 and the end of March 1990.

foreign commercial banks is purchased by outside investors at a reduced rate. The purchaser then has two options: hold it and earn tax free the ten percent interest that the Jamaica government would normally pay the commercial bank or convert it into equity investment locally.[122]

The liberal trade and investment policies of the second Manley administration contrast sharply with the self-reliant approach pursued in the 1970s. The Puerto Rican model, so disparaged during the first administration, became the new orthodoxy of the second administration.

## Confrontation and Compromise

Since returning to power in 1989, both Carlos Andres Perez and Michael Manley have pursued foreign economic policies which diverge sharply from those of their first terms. While both leaders championed economic nationalism and self-reliance in the 1970s, they now support economic liberalization and a greater integration of their local economies in the global market.

This chapter has reviewed trade and investment policies in Venezuela and Jamaica. Explaining policy choice at specific points in time, and change in these policies over

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[122]Under the scheme, companies are not allowed to repatriate profits before at least three years (and sometimes as many as seven years), the Jamaican dollar is converted at the prevailing official rate, and the investor has to pay a ten percent fee.

time, is the objective of succeeding chapters. Chapters four through six consider alternative explanations for economic policy choice in both nations. I first consider international and domestic structures explanations and then turn to my own perspective which focuses on the state and state-decision-makers.

## Chapter Four

## EXTERNAL POSITION AND POLICY CHOICE

International structural approaches which consider asymmetries of power and wealth among nations provide a relatively straightforward explanation for variation in economic policy choice among developing nations. The trade and investment policies of each nation are linked with the distribution of power or capabilities in the global system. State behavior is considered a function of a nation's relative power within the system. While powerful nations are able to advance their own interests, weak or dependent nations are expected to comply with the interests and policy preferences of dominant states. Relatively weak nations would not be expected, for example, to challenge global liberalism.

### External Sources of Economic Policy

In this project, the relative position of a developing nation is considered a function of its external accounts such as balance of payments, foreign reserves, and foreign debt.[1]

[1]One difficulty with international structural approaches is the lack of agreement among researchers with respect to a precise definition and means to operationalize the concept of "national power." While precise measures of power remain illusive, it is at least possible to document the direction of change in a nation's external position.

Countries with a positive trade balance, significant foreign reserves, and a relatively small public sector debt are thought to be in a stronger position to adopt economically nationalist policies than countries with balance of payments deficits, foreign exchange shortages, and large external debts.

It is frequently argued that, while many Latin American and Caribbean nations were in a fairly strong position in the 1970s, a steady erosion in their external accounts has led to a corresponding decline in their foreign policy autonomy. While balance of payments surpluses were evident in the 1960s, many nations experienced declining export earnings throughout the 1970s and 1980s. This led to negative economic growth and chronic balance of payments deficits. Moreover, attempts to offset foreign exchange shortages through massive external borrowing have engendered debilitating debt burdens. With an increasing percentage of national income being used to meet debt service obligations, few nations are in a position to challenge the liberal international economic regimes.

The economic downturn which Latin American and Caribbean nations have experienced clearly conditioned state policy. Decision-makers now feel compelled to adopt export promotion strategies and create incentives for foreign investment in order to obtain the necessary foreign exchange to simply service their debts. In addition, seeking foreign exchange support from multilateral donors requires the adoption of liberal reforms.

Riding the Oil Tide in Venezuela

An international structural perspective is often employed to account for the shift from economic nationalism to neo-liberalism during the two AD administrations of Carlos Andres Perez. When Perez first assumed office in 1974 the nation's economy was relatively robust. Venezuela had enjoyed consistent economic growth throughout the 1950s and 1960s. In addition, the sudden increase in the world market price of petroleum greatly expanded the nation's foreign reserves. This situation contrasts sharply with the economic conditions in Venezuela today. Since returning to power in 1989, the Perez administration has grappled with falling export earnings, limited foreign exchange reserves, and a debilitating foreign debt. The nation's relatively weak foreign accounts have clearly narrowed the government's policy alternatives and limited its ability to institute protectionist measures.

Venezuela's external accounts were relatively strong when Perez first assumed the nation's presidency in 1974. As Figure 4.1 indicates, Venezuela enjoyed consistent economic growth throughout the 1950s and 1960s. This expansion was expected to continue unabated in the decade of the 1970s. Venezuela also benefitted greatly from the quadrupling of the international price of petroleum in 1973. Because petroleum

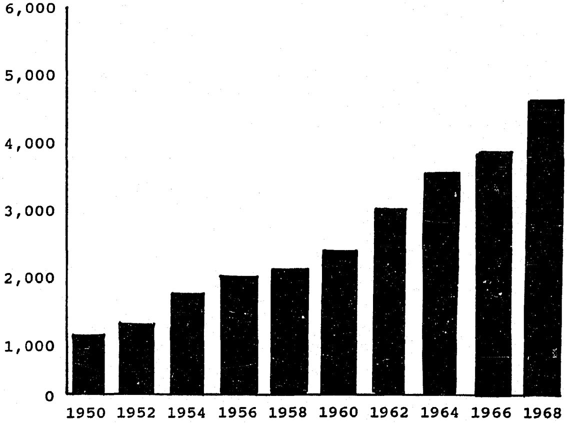


Figure 4.1 Venezuela: Gross National Product 1950-1968. (Millions of bolivars at 1957 prices). Does not include petroleum derivatives. Source: Central Bank of Venezuela. La Economia Venezolana en los Ultimos Treinta Cinco Anos, 1978.

exports constitute the vast majority of the nation's foreign exchange receipts, this sector has long-been the key to the nation's economic well-being. The petroleum windfall greatly strengthened the nations economic position. Between 1972 and 1975 Venezuela's gross national product doubled, its tax revenues tripled, and net international reserves increased from Bs6,155 million to Bs36,429 million. The major international financial services gave the nation their highest possible credit rating.[2]

Because Venezuela was in a relatively strong position it was able to assume a much more influential position in international financial institutions, most notably the World Bank and InterAmerican Development Bank.[3] The Perez administration was also able to assert greater autonomy over its foreign economic policy than previous Venezuelan governments. Without a dependence on foreign capital inflows the administration could adopt measures to restrict trade and curtail the activities of transnational corporations. The nation was in a position to withstand any possible retaliatory actions by foreign economic actors.

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[2]Both Standard and Poor's and Moody's classified Venezuela as a triple-A credit risk, the best rating possible.

[3]By the end of 1974 the Perez administration was able to disburse $700 million to international lending agencies. This occurred at a time when both the World Bank and the InterAmerican Development Bank were having problems raising sufficient financial capital. Venezuelan resources were particularly directed toward other Latin American nations to offset the costs of petroleum imports.

Debt and Decline

When Perez reassumed the Venezuelan presidency in 1989 he encountered a starkly different situation. Venezuela's external position had declined markedly during the 1980s and the new government found itself in the midst of a fiscal crisis.

Again, Venezuela's economic fortunes can be traced to the performance of its petroleum sector.[4] Falling oil prices during much of the preceding decade had led to a sharp drop in export revenues.[5] This is depicted in Table 4.1. As the table demonstrates, income from petroleum exports in 1987 was less than half of the income earned at the beginning of the decade. The nation experienced a current accounts deficits from 1986 to 1988 and relatively large capital accounts deficits in both 1988 and 1989. This is reflected in Figure 4.2.

As foreign exchange earnings dropped there was increased pressure on the bolivar. A consistent depreciation of the bolivar, chronicled in Figure 4.3, spurred private capital flight from the country. Holdings of Venezuelan's abroad were

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[4]In 1989 petroleum accounted for approximately two-thirds of the nation's export earnings and the central government's revenue.

[5]Oil prices plummeted from $26/barrel in 1985 to $14/barrel in 1988; revenues declined from $14.8 billion in 1984 to $9.1 billion in 1987; and petroleum exports fell from Bs19.1 in 1981 to Bs7.6 in 1986. The contraction was due in part to production quotas agreed upon by the OPEC nations.

Table 4.1

Venezuela: Petroleum Revenue, 1979-1987
(Millions of $U.S.)

| Year | Petroleum Income | Percentage Change |
|---|---|---|
| 1979 | 13,673 | |
| 1980 | 18,301 | 33 |
| 1981 | 19,095 | 4 |
| 1982 | 15,659 | -18 |
| 1983 | 13,667 | -13 |
| 1984 | 14,794 | 8 |
| 1985 | 12,862 | -13 |
| 1986 | 7,054 | -41 |
| 1987 | 9,054 | 19 |

Sources: Central Bank of Venezuela, Informe Economico 1987-1988. Emeterio Gomez. "Las Transformaciones Occurridas en la Economia Venezolana a Partir de 1983," in Central Bank of Venezuela, La Economia Contemporanea de Venezuela, Vol. 4, (1991), pp. 307-352.

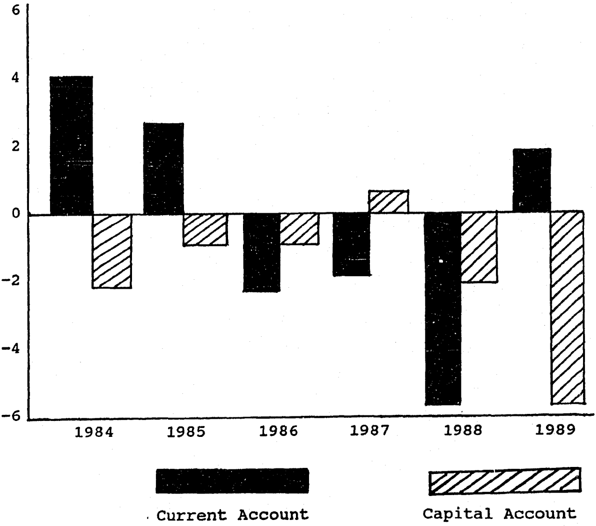
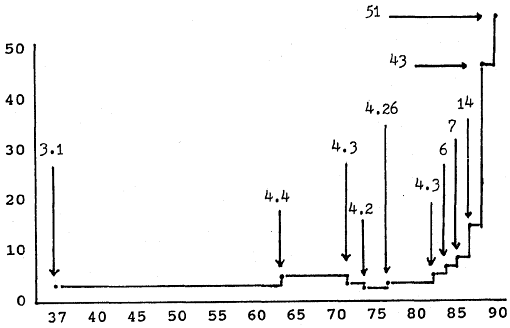



Figure 4.2 Venezuelan Balance of Payments, 1984-1989. Current and Capital Accounts, (Billions of U.S. Dollars), Sources: Central Bank of Venezuela, Anuario de Balanza de Pagos; Serie Estadistico 1984-1989, 1991.




<u>Figure 4.3</u> Venezuelan Foreign Exchange Rate, 1937-1990. (Bolivars per U.S. dollar)

estimated to be at least $58 billion in 1989.

The Perez administration was also forced to grapple with a debilitating foreign debt. Both the administrations of Luis Herrera Campins (1979-1984) and Jaime Lusinchi (1984-1989) engaged in massive foreign borrowing. By December 1989 the nation's foreign debt had reached US$34.2 billion, eighty-five percent of which was owed to commercial banks. Moreover, annual debt service payments stood at US$4.8 billion, or the equivalent of forty-six percent of the nation's total export earnings. The total outstanding external debt was equivalent to 79.4 percent of gross domestic product in 1989. Figure 4.4 depicts Venezuela's foreign debt service between 1984 and 1989.

The Perez administration also found the nation's treasury virtually depleted. Between 1984 and 1988 foreign reserves had been used to service the debt. Venezuela repaid $25 billion during this period, including principal payments totaling $15.7 billion.[6] While the Herrera administration first began drawing down the nation's foreign reserves, this practice was greatly accelerated during the Lusinchi administration. Between 1984 and 1989, the government

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[6] Venezuela was the only Latin American country and one of few in the developing world that not only serviced its debt during this period but actually reduced its foreign credit obligations by the amortization of principal. The depletion of reserves finally forced suspension of principal payments in December 1988.

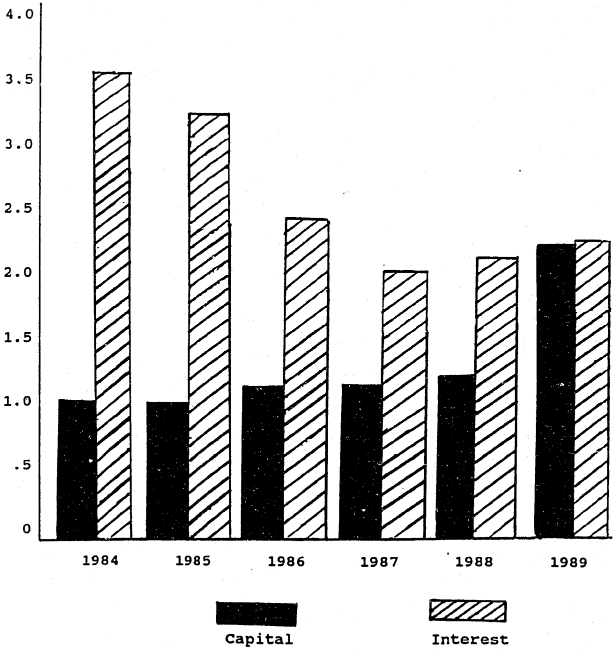


Figure 4.4 Venezuelan Public Foreign Debt Service, 1984-1989. (Billions of U.S. Dollars). Sources: Central Bank of Venezuela, Anuario de Balanza de Pagos; Serie Estadistico 1984-1989, 1991.

attempted to purchase economic growth and political popularity by exhausting the country's savings. Table 4.2 gives some indication of the magnitude of the problem. Between 1984 and 1988 total reserves declined from $13,595 million to $6,966 million. Some of this money was used for large state investment in basic industries. In addition, generous subsidies were disbursed to the agricultural sector. Once reserves from the Investment Fund were depleted, the government began to draw from the nation's general treasury.[7]

Corruption was also a major reason for the depletion of the nation's foreign exchange reserves, particularly during the Lusinchi administration. Although there were a number of scandals during this period,[8] the most damaging by far was the RECADI Scandal. This scandal can be traced back to 1983 when a three-tiered exchange rate was established, with a low rate for state purchases, a middle rate for critical imports, and a floating rate for all other exchanges. The Registry of the Differential Exchange Rate (RECADI) was the government agency created to manage the three-tiered exchange system. Government officials in RECADI conspired with private elites

[7]Ana Maria Alvarez de Stella, "Crisis Economica y Manejo de la Deuda Externa," in Stephany Graffith-Jones, (ed.) Deuda Externa, Renegociacion y Ajuste en America Latina. (Mexico City: Fondo de Cultura Economica, 1988), pp. 236-279.

[8]Corruption scandals during the Lusinchi administration involved military purchases, public works contracts, illegal commissions, diversions of public funds for private use, and bribes paid to union officers.

Table 4.2

Venezuelan Foreign Reserves 1984-1988
(Millions of $U.S.)

| | Total Reserves Central Bank | Reserves of F.I.V. | Total Reserves |
|---|---|---|---|
| 1984 | 12,341 | 1,254 | 13,595 |
| 1985 | 13,690 | 1,748 | 15,438 |
| 1986 | 9,876 | 1,827 | 11,703 |
| 1987 | 9,402 | 1,628 | 11,030 |
| 1988 | 6,555 | 411 | 6,966 |

Sources: Central Bank of Venezuela, Anuario de Balanza de Pagos; Serie Estadistico, 1984-1989, 1991; Informe Economico, 1987-1989.

to launder billions of dollars through the system. Entrepreneurs presented falsified receipts for imports which gave them access to dollars at the subsidized rate of exchange. These could then be deposited abroad or converted into bolivars at the market rate, often twice as high as the subsidized rate. The government officials would then receive a kick-back from the proceeds. The RECADI Scandal was estimated to have drained roughly eight billion dollars from the nation's treasury.

By the time Perez took office in 1989 Venezuela had an external debt of $34.2 billion, eighty-five percent of which was owed to commercial banks.[9] The nation's central bank had $6.3 billion in short term liabilities while operative reserves stood at US$300 million in liquid funds, or just barely enough for ten days of imports. The nation's credit rating had slipped so low that Venezuelan notes held by banks abroad were worth only thirty percent of their face value on the open market.

Given this state of near fiscal collapse, the Perez administration had little choice but to seek a rescheduling and renegotiation of the external debt. In March 1990 it entered into a debt reduction agreement. The agreement, which covered almost sixty-five percent of the country's external

[9]William Cline, "Estructura, Origenes, y Administracion de la Deuda Publica Externa de Venezuela," in La Reforma del Sistema Fiscal Venezolano. Vol. 111, No. 22, Caracas: Comision Presidencial de Estudio y Reforma Fiscal, 1989.

debt, was expected to reduce capital outflows and give the nation access to new external financing. The agreement did require, however, liberalization of the nation's trade and investment regimes.

Empirical Critique

As noted above, the contrasting foreign economic policies of the first and second Perez administrations are often attributed to changes in the nation's external position. Clearly changes in Venezuela's external position have been a major constraint on economic policy choice and help account for the movement from economic nationalism to neo-liberalism.[10]

At the same time, analysis of Venezuela's foreign accounts does not fully explain policy choice. Close inspection of economic data from the period indicates that Venezuela's economic decline began as early as 1975 and continued throughout the remainder of Perez's first term in office. Although this decline was not as severe as in Jamaica, it did represent a significant constraint on the

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[10]This perspective is reflected in such works as Elsa Cardozo de Da Silva, "La Politica Exterior de Venezuela 1984-1989: Entre los Vulnerabilidades Economicas y los Compromisos Politicos," Politica Internacional, No. 14, (April-June 1989), pp. 1-14 and Nikolaus Werz, "State, Oil, and Capital Accumulation in Venezuela," in Christian Anglade and Carlos Fortin, (eds.) The State and Capital Accumulation in Latin America. Vol 2, (Pittsburgh: University of Pittsburgh Press, 1990), pp. 182-210.

government's policy choice. In the face of this external decline, however, the Perez administration continued to advance restrictive trade and investment policies.

Venezuela's economic difficulties during Perez's first administration were largely a function of external forces. As the industrialized nations went into a recession in the mid-1970s, there was a corresponding decline in demand for petroleum exports and in the world market price of petroleum.[11] As Table 4.3 reflects, revenues from the petroleum sector declined after 1974. Venezuela's oil production was also scaled back thirty percent during this period. This undermined the nation's balance of payments position. As Table 4.4 indicates, Venezuela recorded a balance of trade deficit in both 1977 and 1978.

At the same time the Venezuelan government initiated a number of large-scale infrastructure and development projects. Public investment doubled from 1973 to 1975 and again between 1975 and 1977.[12] This is depicted in Figure 4.5. While

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[11]Petroleum prices leveled off in 1976 and began to fall in 1977. See Sergio Aranda, "El Comportamiento de la Economia Venezolana en la Actual Crisis Mundial," Cuadernos del CENDES, No. 1, (1983), pp. 73-94, for a more detailed analysis of this period.

[12]This included the construction of roads, electric power plants, bridges, schools, hospitals, and other projects. The largest government investments were made in a complex of steel, aluminum, and bauxite refineries in Ciudad Guyana, near the largest deposits of iron ore and other minerals. Investments were also made in hydroelectric and petrochemical plants.

Table 4.3

Venezuelan Petroleum Revenue 1971-1978
(Billions of $U.S.)

| Year | Petroleum Income | Percentage Change |
|---|---|---|
| 1971 | 2.905 | 22 |
| 1972 | 2.929 | 1 |
| 1973 | 4.450 | 52 |
| 1974 | 10.762 | 142 |
| 1975 | 8.493 | -21 |
| 1976 | 8.802 | -4 |
| 1977 | 9.225 | 5 |
| 1978 | 8.705 | -6 |

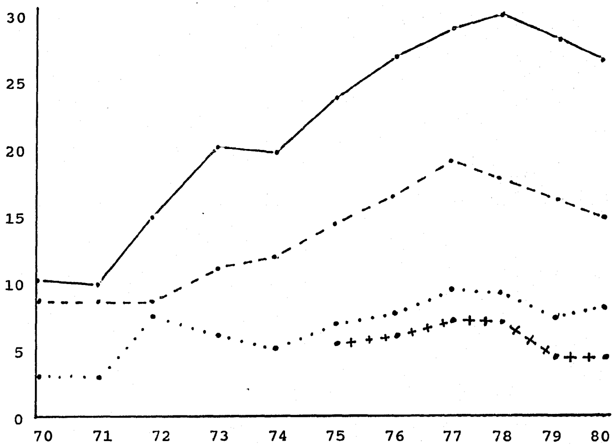
Sources: Central Bank of Venezuela, Informe Economico, 1979; Gomez, 1988, op. cit.

Table 4.4

Venezuelan Balance of Trade, 1974-1979
(Millions of Current $U.S.)

| EXPORTS | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|---|
| Petroleum | 10,762 | 8,493 | 8,802 | 9,225 | 8,705 | 11,972 |
| Other | 528 | 483 | 540 | 436 | 469 | 500 |
| Total | 11,290 | 8,976 | 9,342 | 9,661 | 9,174 | 12,472 |
| IMPORTS | | | | | | |
| Machinery | 1,517 | 2,525 | 3,349 | 5,065 | 5,418 | 4,400 |
| Manu & Chems. | 1,671 | 2,046 | 2,159 | 3,665 | 3,887 | 3,600 |
| Food & Agric. | 351 | 450 | 740 | 1,185 | 1,272 | 1,500 |
| Other | 337 | 441 | 966 | 424 | 445 | 400 |
| Total | 3,876 | 5,462 | 7,214 | 10,339 | 11,022 | 9,900 |
| TRADE BALANCE | 7,414 | 3,514 | 2,128 | -678 | -1,848 | 2,572 |

Source: Central Bank of Venezuela, Informe Economico 1979.




____ Total Investment ++++ Public Sector (Without Petro.)

---- Private Sector .... Autonomous Public Enterprises and Institutes (Incl. Petro.)

Figure 4.5 Public and Private Investment in Venezuela, 1970-1980. (Billions of bolivars at 1968 constant prices) Sources: Central Bank of Venezuela, Informe Economico 1979; La Economia Venezolano en los Ultimos Treinta Cinco Anos; Moises Naim and Ramon Pinango, El Caso Venezolano: Una Ilusion de Armonia. (Caracas: Instituto de Estudios Superiores de Administracion), p. 81.

petroleum revenues were initially sufficient to fund the government's ambitious development projects, public revenues soon fell behind spending. Poor management of these projects and a rapid expansion of the public payroll led to current accounts deficits.

In an attempt to offset these deficits the government borrowed heavily from public and private capital markets abroad. As Figure 4.6 demonstrates, there was a precipitous increase in the nation's foreign debt after 1975. When multilateral financial institutions suspended credit to petroleum exporting countries, the Venezuelan government turned to private banks.[13]

It is important to note that the cause of these deficits was due in part to the temporary upsurge in imports of capital goods required by the country's massive steel, hydroelectric, and other heavy industrial projects. As such, unlike Jamaica where borrowing was used for consumption expenditures, much of the money borrowed by the Venezuelan government went into investment spending. This is an important difference between the two nations and reflected Venezuela's stronger economic position. At the same time, the Venezuelan economy remained

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[13]Venezuela was initially granted a high credit rating and some of the easiest terms in the region, (only .75 percent over the London Inter-Bank Offered Rate, LIBOR) because of its strong reserve position and expected revenues from petroleum exports. See Miguel F. Rodriguez, "El Verdadero Origen del Endeudamiento Externo," Revista CEV, Colegio de Economistas del Districto Federal y Estado Miranda. Segundo Epoca, No. 10, (April 1985), pp. 3-14.

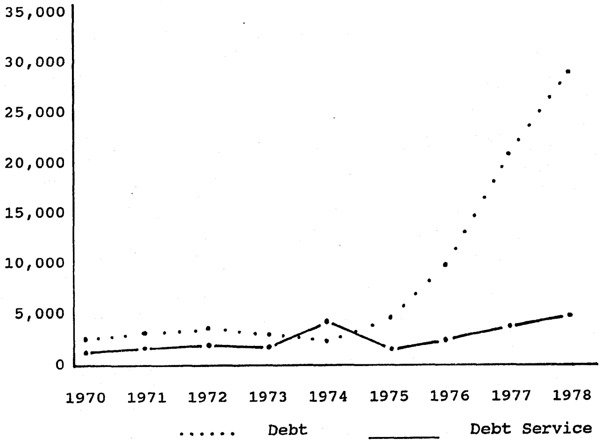


Figure 4.6 Venezuelan Debt and Debt Service 1970-1978. (Millions of bolivars), Source: Central Bank of Venezuela, *Informe Economico, 1979*.

highly dependent on external actors, a factor which is examined in some detail in the succeeding chapter.

Although Venezuela's National Congress passed a law requiring Congressional approval of government loans contracted for more than one year this did not curtail government indebtedness. In fact, the law may have actually accelerated public borrowing. Since borrowing was allowed without Congressional approval for terms of less than a year, many government ministries, semi-autonomous institutes, and public corporations took out loans on a short-term basis for long-term projects. This was done despite the higher or floating interest rates for short-term borrowing. Many state-owned enterprises, such as EDELCO and SIDOR, accrued loans for periods of ninety to one hundred and eighty days for projects needing five to ten years to complete. When the loans came due, the state institutions would simply pay them off with additional borrowing.

Corruption was also endemic during this period, often in the form of unjustified cost overruns by contractors and kickbacks to government officials. Public foreign debt doubled between 1972 and 1976 and reached $4.77 billion by the end of 1977 and 7.2 billion by the end of 1978. Moreover, while servicing the debt comprised six percent of government expenses in 1970 this figure had increased to sixteen percent by 1977. Balance of payments deficits and a severe shortage of foreign exchange characterized the remainder of Perez's first term in office. This is documented in Table 4.5.

In the face of deteriorating foreign accounts the Perez administration continued and in some respects actually stepped up the economically nationalist policies. During the last two years of his term, the nation's trade and investment regulations were tightened in a number of respects. Decree 2031 (February 9, 1977) provided that the products manufactured by a company must have at least thirty percent local content.[14] The Decree also modified Decree 62 so as to better define the term "internal commercialization" and to permit a certain quantum of such activity, provided that a company also had manufacturing activity representing at least fifty-one percent of its receipts. Decree 2442 (November 8, 1977) stated that foreign investment would be allowed in Venezuela only if it took the form of a joint venture with a Venezuelan firm which controlled at least fifty-one percent of the capital.[15]

In addition, foreign investment would only be allowed in those projects which had a degree of national value added of over fifty-one percent, were intended to generate exports with

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[14]Office of the President, Decreto 2031, Reglamento de los Regimenes Especiales a Que se Reiere el Capitulo III de la Decision 24 del Acuerdo de Cartegena, February 28, 1977. Gaceta Oficial, February 9, 1977.

[15]Office of the President, Decreto 2442, Reglamento del Regimen Comun de Tratemiento a los Capitales Extranjeros y Sobre Marcas, Patentes, Licencias, y Regalias Aprobado por el Decreto 63, November 8, 1977, Gaceta Oficial, November 15, 1977.

Table 4.5

Venezuelan Foreign Reserves, 1968-1978
(Millions of U.S. $)

| Year | BCV | BCV + FIV | BCV + FIV + PDVSA | BCV +PDVSA |
|---|---|---|---|---|
| 1968 | 50 | 50 | 50 | 50 |
| 1969 | 13 | 13 | 13 | 13 |
| 1970 | 85 | 85 | 85 | 85 |
| 1971 | 444 | 444 | 444 | 444 |
| 1972 | 219 | 219 | 219 | 219 |
| 1973 | 723 | 723 | 723 | 723 |
| 1974 | 4,022 | 4,161 | 4,161 | 4,022 |
| 1975 | 2,433 | 2,854 | 2,854 | 2,433 |
| 1976 | -286 | 65 | 2,351 | 1,926 |
| 1977 | -425 | -150 | 755 | 554 |
| 1978 | -1,707 | -1,750 | 1,027 | -984 |

Sources: Central Bank of Venezuela, Informe Economico, 1979; La Economia Venezolana en los Ultimos Treinta Cinco Anos, 1978, Central Office of Statistics and Information, Anuario Estadistico, 1979.

over thirty percent national value added, created significant employment opportunities, were established in priority development zones, were based on imported new technologies, agreed to a relatively shorter transformation period to mixed companies, and pledged to reinvest a significant portion of their profits in other projects or national development bonds.

SIEX was also given the right to require prior approval for dividend remittances and all royalty or technology service remittances.[16] Any modifications of the Articles of Incorporation or By-laws of a foreign-controlled company required SIEX approval before they could be filed with the Mercantile Registry.[17] In January 1978 the Perez Administration placed import restrictions on an additional five hundred foreign products.[18]

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[16]This contradicted an article in the Decree, however, which states specifically that remittances of this sort are free of any prior authorization.

[17]Until April 30, 1975 reinvestments without limitation as to amount and without the necessity of this prior permission were permitted. After April 1975 the prior permission of SIEX was necessary for reinvestments in excess of the automatic five per cent permitted by right.

[18]Decree 2442 did ease up a bit on some restrictions. By incorporating the provisions of the Andean Pact Decision 103 into Venezuelan law, the annual after tax dividend remittance ceiling was raised from fourteen percent of a company's foreign registered capital investment to twenty percent. In the same vein, the limit on automatic annual reinvestment of profits in a company was increased from five to seven percent of registered foreign capital investment base. The new Decree opened the possibility of expanding foreign capital participation, even in areas reserved to national companies, through the selling of new shares during capital expansion to foreign investors. Also, acute demand for housing spurred the

Given Venezuela's declining external position, and the overall dependence of its economy, international structural perspectives would have predicted liberalization of the nation's foreign economic policies during this period. As such, this perspective is unable to account for the economically nationalist posture of the Perez administration throughout the remainder of its term in office.

It is important to recognize the relative economic strength of Venezuela today despite a deterioration in its foreign accounts. Certainly in comparison to Jamaica, Venezuela is in a much stronger position to assert policy-making autonomy. Again, the nation's economic strength is tied to its petroleum reserves. In 1990 its proven oil reserves were over sixty billion barrels, up over one hundred percent since 1986. The increase in reserves occurred when PDVSA upgraded previous estimates. There have also been large discoveries of light and medium crude reserves.[19]

During 1990 the Venezuelan economy recovered from the

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government to selectively lift foreign investment restrictions in the construction industry. In March 1978 it was announced that foreign investment would be allowed in low-cost housing, office buildings, commercial centers, tourism installations, and educational facilities. In addition, some special incentives were offered to foreign investors including flexible transformation periods and conditions for converting to a mixed company.

[19]In addition, heavy crude reserves in the Orinoco oil belt totals 267 billion barrels, based on twenty-two percent recovery of 1.2 trillion barrels of oil which is estimated to be located there.

1989 recession with real GDP growing 4.4 percent. Growth was led by a 8.5 percent expansion of the petroleum sector and a better than average growth in construction, manufacturing, financial services, and the central government. Venezuela's balance of payments position registered a $3.8 billion surplus and the trade surplus expanded from $5.9 billion in 1989 to $10.8 billion in 1990.[20] International reserves ended the year at $11.5 billion, up $4.1 billion from a year earlier.[21] The nation's balance of payments position in 1991 was also strong and external debt service payments were reduced.[22] Given its relative economic strength, Venezuela should have been in a position to readopt more restrictive or nationalist policies. The continuation and extension of the liberal reforms thus casts further doubt on the explanatory power of purely international structural approaches.

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[20]Moreover, the current account registered a large surplus of $7.4 billion in 1990, up from $2.5 billion in 1989. The capital account also improved over its 1989 performance due largely to a reduction in net repayment of trade credits by the private sector, an increase in new loans received by the public sector, and a reduction in public sector amortization payments.

[21]Of these $11.5 billion, $7.1 billion were considered to be operating reserves and were equivalent to thirteen months of imports at 1990 prices.

[22]The decline in debt service payments was the result of a December 1990 agreement with the commercial banks, coupled with inflows from international financial institutions and foreign investors.

Jamaica's Post-War Economic Expansion

An international structural argument is also employed to account for economic policy choice during the two Manley administrations in Jamaica. Once again, a cursory review of Jamaica's recent economic history seems to lend support to this perspective. In many respects, Jamaica was in a stronger position vis a vis foreign actors in 1972 than it was 1989. This would support the proposition that the Manley government enjoyed greater foreign policy autonomy during its first term in office than in the period since 1989. Given stronger foreign accounts during the 1970s, the administration was theoretically in a better position to challenge liberal trade and investment regimes.

Jamaica's external accounts were relatively strong at the onset of the first Manley administration. As in the Venezuelan case, the Jamaican economy expanded during the 1950s and 1960s. The nation experienced an unparalleled development in its productive forces both in terms of nominal and real growth of gross domestic product. The economy grew four to five percent per annum on the average between 1959 and 1972 with GDP more than doubling from J$407 million to J$825.2 million.[23] Real per capita income also increased by more

[23]National Planning Agency, Economic and Social Survey 1972.

than one hundred percent between 1950 and 1968.[24]

The economy grew in response to the global economic expansion of the post-war period and an influx of foreign capital. This growth was fueled primarily by the expansion of the bauxite industry as reflected in Figure 4.7. By the 1960s Jamaica had become the world's largest producer of bauxite. In 1965 the country supplied twenty-eight percent of the bauxite used in the market economies. Investments by the multinationals greatly expanded capacity in this sector and also spurred some growth in the construction sector. Taxes paid by the transnational firms fuelled government spending on infrastructure and services.

While Jamaica's imports exceeded exports during most of the 1960s, (See Table 4.6 and Figure 4.8), capital inflows in the bauxite and tourist sectors more than offset this deficit. Between 1960 and 1971 the cumulative current accounts deficits was J$582 million whereas private capital inflows amounted to J$604.7 million.

## A Nation in Crisis

When Manley returned to power in 1989 he encountered a starkly different economic situation. Jamaica's external position had declined markedly during the 1980s and the

[24]The growth of per capita income was especially rapid from 1950 to 1960, increasing at an annual rate of 5.4 percent. It slowed to an annual rate of growth of 2.9 percent between 1960 and 1968.

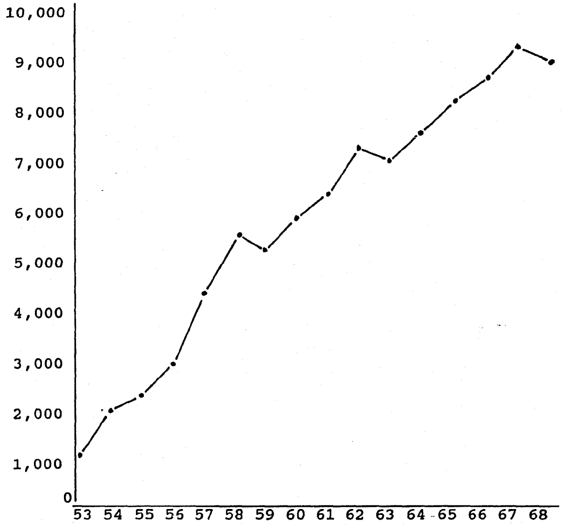


Figure 4.7 Jamaican Bauxite Production, 1953-1968. (Thousands of Long Tons) Source: Department of Statistics, Abstract of Statistics, 1950-1968.

Table 4.6

Jamaican Balance of Trade, 1960, 1965-1973
(Millions of U.S. $)

| Year | Imports | Exports | | | Balance |
|---|---|---|---|---|---|
| | | Total | Domestic | Re-exports | |
| 1960 | 155.0 | 113.4 | 111.6 | 1.8 | -41.6 |
| 1965 | 206.4 | 153.0 | 149.8 | 3.2 | -53.4 |
| 1966 | 233.8 | 196.2 | 193.6 | 2.6 | -37.6 |
| 1967 | 252.6 | 196.8 | 194.2 | 2.6 | -55.8 |
| 1968 | 320.4 | 207.1 | 203.5 | 3.6 | -113.3 |
| 1969 | 363.3 | 243.7 | 238.0 | 5.7 | -119.6 |
| 1970 | 437.8 | 283.1 | 277.7 | 5.4 | -154.7 |
| 1971 | 459.7 | 283.9 | 276.4 | 7.5 | -175.8 |
| 1972 | 493.2 | 300.3 | 292.6 | 7.7 | -192.9 |
| 1973 | 604.1 | 354.7 | 347.7 | 7.0 | -249.4 |

Source: National Planning Agency, Economic and Social Survey, 1973, pp. 105-106.

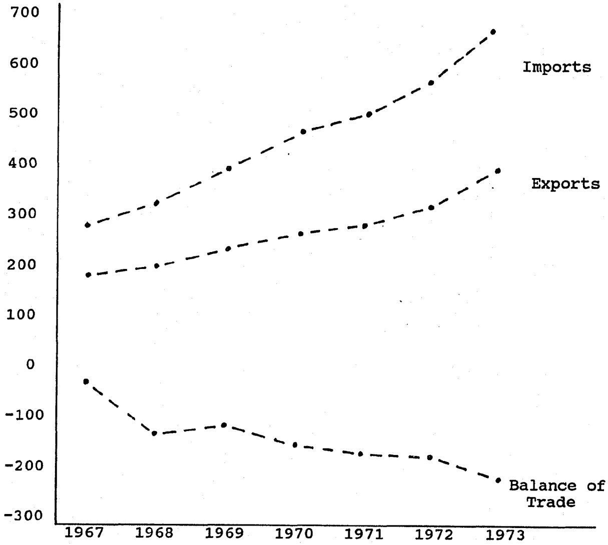


Figure 4.8 Jamaican Balance of Trade, 1967-1973. (Millions of U.S. dollars) Source: National Planning Agency, Economic and Social Survey, 1973, p. 105-106.

country was in the midst of a generalized economic crisis.

The JLP policy of liberalizing imports during the 1980s had an adverse effect on the nation's balance of trade. Imports grew rapidly during this period while little regard was being paid to export earnings. By 1983 the current accounts deficit had widened to twenty-four percent of gross domestic product. At the same time, the bauxite/aluminum industry declined as prices plummeted. While Jamaica exported twelve million tons of bauxite in 1980 this figure had fallen to seven million tons by 1986.[25] Export earnings in this sector contracted sharply during the remainder of the decade.[26]

As in the Venezuelan case, decline in the key mineral export sector led to a progressive deterioration of the economy as a whole. Exports fell from $974 million in 1981 to $568 million in 1985 and, although there was some reduction in imports, the trade deficits increased again in 1987 and 1988.

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[25]Evelyne Huber Stephens and John D. Stephens. "Manley Prepares to Return: PNP Options in Today's Jamaica," Caribbean Review, Vol 16, No. 2, (Winter 1988), pp. 16-19, 39-44. This was due in part to closure of Reynolds Bauxite Mines in mid-1984 and closure of Alcoa Minerals and Alumina Partners of Jamaica (ALPART) in 1985. When JAMALCO closed the government negotiated a lease arrangement with Alcoa under which the plant would continue to operate under Alcoa management on behalf of the government. Under this arrangement the new operating company, Clarendon Alumina Plant (CAP) was exempt from the bauxite levy; its primary benefit to the Jamaican economy was in employment retention. (Bank of Jamaica, The Central Bank and the Jamaican Economy 1960-85, Research and Development Division, op. cit., p. 92.)

[26]Ministry of Finance, 1989, op. cit, p. 8-9.

While foreign exchange earnings in the tourist sector increased during the 1980s they were not sufficient to offset the trade deficits.[27] By the end of 1988, exports were well below 1980 levels.[28] As noted in Table 4.7, the nation had a $597 million trade deficit in 1989. This figure reached $600 million in 1990.[29] Moreover, net international reserves declined by $170.4 million in 1989 and the current accounts deficit increased by $233.3 million.[30]

As in the Venezuelan case, the Jamaican government tried to offset foreign exchange deficits through borrowing from abroad. External borrowing from all sources, including the IMF and World Bank, increased dramatically during the 1980s, from 1.8 billion dollars at the end of 1980 to over four billion dollars at the end of 1988. Table 4.8 chronicles the growth in the nation's medium and long-term debt during this period. Jamaica was left with one of the highest per capita debts in the world.[31] The debt represented 127 percent of

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[27]Michael Manley, "The Challenge of the Nineties: Facing Economic Realities," Broadcast, January 28, 1990, p. 3

[28]Ministry of Finance, 1989, op. cit., p. 8-9.

[29]Planning Institute of Jamaica, Social and Economic Survey, 1989.

[30]Planning Institute of Jamaica, Social and Economic Survey, 1989, p. ix. This increase in the current accounts deficit occurred despite inflows of US$294.0 million in unrequited transfers.

[31]During the 1980s the Jamaican government received over a billion dollars in bilateral aid from the United States and huge loans from the International Monetary Fund and World

Table 4.7

Jamaican Balance of Payments, 1980-1989
(Millions of US$)

| | 1980 | 1982 | 1984 | 1986 | 1988 | 1989 |
|---|---|---|---|---|---|---|
| Trade Balance | -75 | -442 | -335 | -247 | -395 | -597 |
| Exports | 963 | 767 | 702 | 590 | 834 | 970 |
| Imports | 1038 | 1209 | 1037 | 837 | 1228 | 1567 |
| Service Balance | -182 | -97 | -77 | -74 | 224 | 70 |
| Tourism | 229 | 306 | 385 | 481 | 470 | 553 |
| Investment | -252 | -184 | -259 | -314 | -407 | -475 |
| Other | -159 | -219 | -204 | -93 | 161 | -9 |
| Total Balance | -257 | -538 | -412 | -173 | -171 | -527 |
| Private Trasfers | 82 | 135 | 81 | 112 | 136 | 149 |
| Current Accounts Balance | -175 | -404 | -332 | -62 | -35 | -378 |

Sources: Planning Institute of Jamaica, Economic and Social Survey, 1989, p. 2.1; Kari Polanyi Levitt, The Origins and Consequences of Jamaica's Debt Crisis, 1970-1990. (Kingston: University of the West Indies. Consortium Graduate School of Social Sciences, 1990), p. 47.

Bank. Bilateral debt accounted for 46.7 percent of this total while multilateral and commercial debt accounted for 40 and 9.6 percent respectively. Because only a small portion is owed to commercial banks, Jamaica's ability to take advantage of the debt relief proposals being proposed for major debtor nations is limited.

Table 4.8

Jamaican Medium and Long Term Debt, 1980-1988
(Millions of U.S. $)

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|---|
| Total Debt | 1867 | 2293 | 2740 | 3267 | 3262 | 3587 | 3576 | 4013 | 4009 |
| Multilateral | 545 | 854 | 1102 | 1223 | 1275 | 1376 | 1498 | 1734 | 1562 |
| IMF | 309 | 470 | 583 | 627 | 629 | 693 | 665 | 578 | 464 |
| IBRD | 176 | 212 | 322 | 368 | 412 | 435 | 480 | 462 | 490 |
| IDB | 60 | 74 | 108 | 113 | 123 | 125 | 247 | 297 | 506 |
| Other | - | 98 | 89 | 115 | 111 | 123 | 106 | 397 | 102 |
| Bilateral | 467 | 718 | 1036 | 1246 | 1256 | 1463 | 1568 | 1686 | 1841 |
| US AID | 57 | 80 | 275 | 382 | 451 | 482 | 450 | 471 | 464 |
| CIDA/EDC | | | | | 57 | 52 | 91 | 90 | 111 |
| Commercial Banks | 409 | 413 | 421 | 396 | 415 | 393 | 390 | 393 | 392 |

Sources: Bank of Jamaica, Statistical Digest, December 1988; Planning Institute of Jamaica, Economic and Social Survey, 1989; Kari Polanyi Levitt, 1990, op. cit., p. 49.

GDP and the ratio of total external debt to exports of goods and services was 193 percent.

By 1989, the annual debt service bill was roughly $900 million which constituted about forty-five percent of the nation's foreign exchange earnings and forty percent of the national budget.[32] Jamaica had also accumulated external payment arrears of US$55 million and the 1989 fiscal year projections pointed to a widening of the external current accounts deficit to about eight percent of GDP. The deterioration in the nation's fiscal accounts is recorded in Table 4.9.

By 1986 Jamaica had actually become a net exporter of capital with $770 million being transferred out of the country between 1986 and 1989. This was the equivalent of nine percent of the country's GDP during this period. Another $315 million was expected to be transferred out of the country during the 1990-1991 fiscal year.[33] Jamaica's weak international reserves position, including the accumulation of external payment arrears, caused a decline in net capital inflows as investors increasingly doubted the nation's ability to meet its foreign exchange commitments.

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[32]People's National Party, The Economy: Expanding Production for Nation-Building. a Policy Paper of the PNP, 1988. p. 3.

[33]Planning Institute of Jamaica, 1990, op. cit., p. 17.

Table 4.9

Jamaican Fiscal Accounts, 1985-1989
(Millions of J$)

| | 1985/86 | 1986/87 | 1987/88 | 1988/89 |
|---|---|---|---|---|
| Total Revenue | 9668 | 4466 | 5445 | 6020 |
| Total Expenditure | 4671 | 5630 | 6509 | 8199 |
| Total Expenditure (1) | 4000 | 4728 | 5352 | 6726 |
| Total Expenditure (2) | 2603 | 3260 | 3748 | 4935 |
| Recurrent Expenditure | 3357 | 3708 | 4189 | 4991 |
| Interest | 1396 | 1468 | 1603 | 1790 |
| Other | 1961 | 2240 | 2585 | 3200 |
| Capital Expenditure | 1313 | 1922 | 2319 | 3208 |
| Amortization | 670 | 902 | 1156 | 1473 |
| Gross Investment | 642 | 1020 | 1163 | 1735 |
| Overall Deficit | -1002 | -1164 | -1063 | -2178 |
| Overall Deficit (3) | 394 | 303 | 540 | -388 |
| Recurrent Deficit (4) | -1085 | -709 | -347 | 1046 |
| Subsidies | - | - | 10 | - |

1 = net amortization 2 = net amortization and interest
3 = net of interest 4 = net of interest

Source: Planning Institute of Jamaica, Economic and Social Survey, 1988, p. 6.2

Empirical Critique

Once again, the contrasting economic policies of the two Manley administrations are often linked to a deterioration in the nation's overall economic position. While positive foreign accounts afforded some room to maneuver in the early 1970s, economically nationalist policies were no longer viable by 1989 in the face of a generalized crisis. The government's alternatives were especially limited by its need to seek foreign exchange support from the International Monetary Fund.

Analysis of Jamaica's foreign accounts, and the marked deterioration in these accounts over time, provides a fairly plausible explanation for the neo-liberal policy agenda today.[34] However, such analysis cannot fully account for

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[34]This perspective can be found in such writings as Richard Bernal, "Jamaica: Democratic Socialism Meets the IMF," in Jill Torrie, (ed.) Banking on Poverty: The Global Impact of the IMF and the World Bank, (Toronto: Between the Lines, 1983), pp. 217-239; Richard Bernal, "The IMF and Class Struggle in Jamaica, 1977-1980," Latin American Perspectives, Vol. 11, No. 3, (Summer 1984A), pp. 53-82; Norman Girvan, "Swallowing the IMF Medicine in the 1970s" Development Dialogue, No. 2, (1980), pp. 55-74; and Norman Girvan et al, "The IMF and the Third World: The Case of Jamaica, 1974-1980," Development Dialogue, Vol. 2, (1980), pp. 113-155. These scholars argue that the administration's program was derailed by transnational corporations and international institutions like the IMF. For Norman Girvan and Richard Bernal, ("The IMF and the Foreclosure of Development Options: The Case of Jamaica," Monthly Review, Vol. 33, No. 9, February 1982, pp. 34-48) the administration's experience demonstrated that acceptance of international rules is the only option for a small dependent country. Also Vaughan Lewis ("The Small State Alone: Jamaican Foreign Policy, 1977-1980," Journal of InterAmerican Studies and World Affairs, Vol. 25, No. 2, May 1983, pp. 139-170) and Jay Mandel ("Jamaican Democratic Socialism and the Strike of Capital," in Christopher Chase Dunn (ed.) Socialist States in the World

economic policy choice during the first Manley administration.

On the one hand, unlike Venezuela, its difficult to make the case that Jamaica was ever in a strong position vis a vis foreign economic actors. By the late 1960s foreign ownership dominated the primary sectors of the economy, ranging from one hundred percent in bauxite and alumina, to forty percent in sugar, forty percent in transportation, communications, and public utilities, and fifty-five percent of hotel capacity. The bauxite sector remained a virtual enclave, better integrated with the external world than with the local economy. Machinery and equipment necessary for mining came exclusively from the Western countries. The manufacturing sector was also highly dependent on foreign investment. Lastly, the economy was extremely dependent on trade with its exports and imports heavily concentrated on a few partners.

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System, Beverly Hills: Sage, 1982, pp. 219-237), argue that the withdrawal of foreign capital left the PNP with few options other than the IMF Agreement. Similar perspectives can also be found in the following works: Russel Kincaid, "Conditionality and the Use of Fund Resources: Jamaica," Finance and Development, Vol. 18, No. 2, (June 1981), pp. 18-21; Kari Polanyi Levitt, The Origins and Consequences of Jamaica's Debt Crisis: 1970-1990, (Kingston: University of the West Indies, Consortium Graduate School of Social Sciences, 1990); Robert Looney. The Jamaican Economy in the 1980s: Economic Decline and Structural Adjustment. (Boulder: Westview, 1987); Adlith Brown, "Economic Policy and the IMF and Jamaica," Social and Economic Studies. Vol. 30, No. 4, (December 1981), pp. 1-51; Adlith Brown, "Some Issues of Adjustment and Liberalization in Jamaica," Social and Economic Studies. Vol. 31, No. 4. (December 1982), pp. 192-200; and Richard Bernal, "The IMF, Economic Policy, and the Preservation of Dependent Capitalism in Jamaica," Paper presented at the Conference on the Global Impact of the IMF/WB, University of Toronto, 1982C.

At the same time, it could be argued that Jamaica's relative economic position was stronger in 1972 than it was in 1989, thus lending some support to the structural argument. However, this perspective is unable to fully account for policy choice during Manley's first term in office. To begin, the Jamaican economy went into a tailspin soon after the PNP took power and continued to deteriorate throughout the course of the 1970s. Depression in the world market for aluminum led to declining inflows of private capital investment in the mineral sector as early as 1972.[35] This brought an end to the long period of economic growth and reversed the nation's balance of payments position.[36] The balance of payments deficit in 1972 reached $43.6 million.[37]

The economic crisis intensified during the following year. Worldwide inflation and a devaluation of the Jamaican dollar led to an unprecedented growth in the value of imports, from $493.2 million in 1972 to $604.1 million in 1973. The increase in export earnings from $300.3 million in 1972 to

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[35]In 1972 depressed conditions in the world's aluminum market resulted in under-utilization of Jamaican aluminum capacity. The contribution of the mineral industry to gross domestic product fell for the first time since 1968. National Planning Agency, Economic and Social Survey, 1972, p. 1.

[36]National Planning Agency, Economic and Social Survey, 1972, p. 1.

[37]This was primarily due to an increase in the trade deficit of $20.6 million and a decline in capital inflows. The visible trade deficit moved from $108.2 million in 1971 to $121.0 million in 1972. National Planning Agency, Economic and Social Survey, 1972, p. 57.

$354.7 million in 1973 was markedly less impressive. These developments further enlarged the nation's deficit on merchandize trade to a record figure of $249.3 million.[38] The balance of payments in 1973 showed an overall deficit for the second consecutive year amounting to $26.3 million.[39] The deterioration in Jamaica's balance of payments during the 1970s is reflected in Table 4.10. In addition, net foreign exchange reserves declined from $132.2 million in 1971 to $76.1 million in 1973;[40] and the government's current accounts registered a $223.1 million deficit.[41]

The Jamaican economy was especially debilitated by the 1973 OPEC price increase. Given the nation's almost complete dependence on energy imports, the quadrupling of global petroleum prices led to a severe drain of the nation's foreign reserves. This resulted in the tripling of Jamaica's petroleum import bill from J$65.4 million in 1973 to J$177.6

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[38]National Planning Agency, Economic and Social Survey, 1973, pp. 105-6.

[39]The merchandize trade deficit rose by thirty three percent in 1973 to $161.2 million while the deficit on the services account rose forty-five percent to $85 million. National Planning Agency, Economic and Social Survey, 1973, p. i.

[40]National Planning Agency, Economic and Social Survey, 1975, p. 31.

[41]National Planning Agency, Economic and Social Survey, 1973, p. 11.

Table 4.10

Jamaican Balance of Payments, 1972-1979
(Millions of U.S. $)

| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|---|---|---|
| Trade Bal. | -145 | -195 | -117 | -195 | -132 | 84 | 44 | -68 |
| Exports | 363 | 427 | 693 | 810 | 660 | 751 | 795 | 815 |
| Imports | 508 | 622 | 811 | 970 | 792 | 667 | 750 | 883 |
| Service Bal. | -70 | -105 | -74 | -150 | -177 | -139 | -160 | -155 |
| Tourism | 110 | 117 | 97 | 76 | 47 | 94 | 136 | 184 |
| Investment | -121 | -145 | -68 | -103 | 116 | -129 | -179 | -203 |
| Other | -59 | -78 | -103 | -123 | -108 | -104 | -115 | -137 |
| Total Bal. | 215 | 300 | 191 | -309 | -309 | -55 | -112 | -228 |
| Private transfers | 32 | 38 | 34 | 21 | 2 | 15 | 15 | 70 |
| Current Accounts Balance | -183 | -262 | -157 | -288 | -303 | -40 | -98 | -153 |

Sources: Bank of Jamaica, Report and Statement of Accounts, 1979, 1980; National Planning Agency, Economic and Social Survey, 1970-1979; Levitt, 1990, op. cit., p. 47.

million in 1974.[42]

The global inflationary spiral which followed also led to a drastic increase in the nation's non-petroleum import bill. During this time, Jamaica imported half of its food, and almost all of its industrial raw materials, capital goods, and semifinished goods.[43] Both the export sector and those industries producing for the domestic market were highly dependent on imports from abroad.[44] The ratio of imported raw materials to the gross value of output in the manufacturing sector was forty-three percent in 1974. By the end of 1974 foreign exchange reserves had declined to the equivalent of one and a half months of imports at the 1973 rate.[45]

The global recession of the mid-1970s also diminished demand for Jamaican exports and impeded economic growth. The downward spiral of the Jamaican economy is depicted in Figure

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[42]Bank of Jamaica, Report and Statement of Accounts for the Year Ended December 31, 1974, p. 1.

[43]Import prices increased by 91.6 percent between 1972 and 1974. This contributed to a jump in the domestic inflation rate from 8.2 percent in 1972 to 26.9 percent in 1973 and was 20.6 percent in 1974.

[44]This was especially the case in capital intensive sectors such as the bauxite/alumina industry, but even in labor intensive service sectors such as tourism the import content was over forty percent.

[45]Bank of Jamaica, 1974, op. cit., p. 1.

4.9.[46] By 1975 the nation was grappling with a serious shortfall in foreign exchange reserves. Net foreign exchange reserves fell by $73.6 million from the 1974 level.[47] This was due in part to lower demand for Jamaica's exports of bauxite and alumina. (See Table 4.11) In 1975 exports of bauxite fell by thirty-one percent and production by twenty-five percent below 1974 levels, while alumina declined by fifteen and eighteen percent respectively.[48] The nation simultaneously experienced a precipitous decline in capital inflows.[49]

Jamaica's total exports continued to decline in 1975 and 1976. Again, this was primarily due to declining bauxite production which dropped from fifteen million tons in 1974 to ten million tons in 1976. Bauxite revenues declined from $110 million to $54 million during this same period. The drop in production was a consequence of both a decline in world demand

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[46]It should be noted that during the first year of the OPEC price hikes Jamaica's steep import bill was offset by increased earnings from the bauxite industry following the imposition of the levy. The nation's balance of payments in 1974 recorded an overall surplus of some J$54 million. Bank of Jamaica, Report and Statement of Accounts for the Year Ending December 31, 1975, p. 1.

[47]National Planning Agency, Economic and Social Survey, 1975, p. i.

[48]National Planning Agency, 1975, op. cit., p. i.

[49]Capital inflows declined from US$254 million in 1973 to US$115 million in 1975. Foreign direct investment from the United States declined over thirty percent between 1975 and 1976. Bank of Jamaica, 1975, op. cit., p. 7.

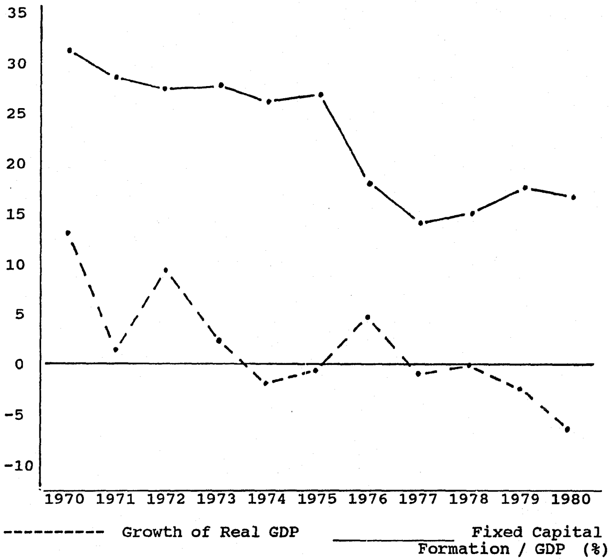


Figure 4.9 Jamaican GDP and Capital Formation, 1970-1980. Sources: Department of Statistics, National Income and Product 1980; Statistical Abstract of Jamaica 1979; Bank of Jamaica, Statistical Digest, December 1981; Jennifer Sharpley, "Jamaica 1972-1980," in Tony Killick (ed.) The IMF and Stabilization: Developing Countries Experience. (New York: St. Martins, 1984), p. 116.

Table 4.11

Jamaican Bauxite Production, 1970-1980
(millions)

| Year | Metric Tons | Short Tons | % Change in Output |
|---|---|---|---|
| 1970 | 12.0 | 13.2 | 14.4 |
| 1971 | 12.4 | 13.7 | 3.0 |
| 1972 | 12.5 | 13.8 | .1 |
| 1973 | 13.6 | 15.0 | 8.7 |
| 1974 | 15.3 | 16.9 | 12.7 |
| 1975 | 11.4 | 12.5 | -26.0 |
| 1976 | 10.3 | 11.3 | -9.6 |
| 1977 | 11.4 | 12.6 | 11.5 |
| 1978 | 11.8 | 13.0 | 3.2 |
| 1979 | 11.6 | 12.8 | -1.5 |
| 1980 | 12.1 | 13.3 | 3.9 |

1 short ton = 2000 pounds    1 metric ton = 2204.6 pounds

Sources: National Planning Agency, Economic and Social Survey, 1977, 1978, 1980; Jamaica Bauxite Institute, Annual Report 1976.

for bauxite and aluminum and the decision by some transnational firms to shift their operations away from Jamaica after the imposition of the production levy. While Jamaica's share of world bauxite production slipped from twenty-seven percent to seventeen percent between 1970 and 1975, Australia's share increased from fourteen percent to twenty-four percent, and Guinea's share increased from two percent to twenty-three percent during the same period. While world production of bauxite fell by less than three percent from 1975 to 1976, Jamaica's production dropped off thirty-three percent during the same time period.

Despite the government's import restraint program, Jamaica's current accounts deficit reached J$301.5 million by the end of 1976. While imports were reduced by seventeen percent in 1976 exports fell by more than eighteen percent. In addition, Jamaica recorded a net outflow of private capital investment for the first time. Capital flight and illegal currency exports would continue to frustrate the government's efforts to conserve foreign exchange throughout the remainder of the decade.[50] In addition, net foreign reserves declined by $238.1 million in 1976.[51] By the end of the year gross foreign exchange reserves had fallen to the minimum required

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[50]Bank of Jamaica, Report and Statement of Accounts for the Year Ending December 31, 1976, p. 3.

[51]Net reserves stood at negative $181.4 million at the end of 1976. National Planning Agency, Economic and Social Survey, 1977, p. 46.

to finance daily transactions.[52]

The government's efforts were also hampered by the persistent belief throughout this period that the nation's currency was about to be devalued. This fear contributed to the massive outflow of foreign exchange both legally and illegally.[53] While private capital inflows were insignificant, outflows increased substantially. A net private outflow of roughly $90 million was recorded in 1976.[54]

Capital outflows were an especially troubling development for Jamaica. As noted above, the nation had previously been able to maintain its balance of payments position through an influx of foreign investment. When these inflows dried up the nation's balance of payments position rapidly deteriorated, leaving little foreign exchange for necessary capital and consumer imports. By the end of 1976 the Bank of Jamaica reported that $300 million had left the country in capital flight and that net foreign exchange reserves were negative for the first time in the history of the country.[55]

Coinciding with the nation's economic decline the Manley

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[52]National Planning Agency, <u>Economic and Social Survey, 1976,</u> p. i.

[53]Bank of Jamaica, 1976, op. cit., p. 1-3.

[54]National Planning Agency, <u>Economic and Social Survey, 1976,</u> p. i.

[55]Kari Polanyi Levitt, <u>Jamaica: Lessons from the Manley Years</u>, (Kingston: Maroon Pamphlets, No. 1, 1984), p. 8.

administration greatly expanded public expenditures. Growth in government spending averaged thirty-two percent per year between 1972 and 1977. The budget deficit expressed as a percentage of total expenditure rose from nineteen percent to twenty-nine percent between 1972 and 1976. The government's budget deficit increased from J$66.8 million in the fiscal year 1972-1973 to J$278.2 million in 1975-1976. A year later the deficit reached $510.5 million or the equivalent of 43.4 percent of total expenditures. The government's recurrent and capital expenses increased by sixty-one percent in 1975 and thirty-six percent in 1976.

Government revenues were unable to keep up with the rapid growth of expenditures. The fiscal deficit increased by over one hundred percent in 1975 and sixty-six percent in 1976. As Table 4.12 demonstrates, the government's current accounts deficit continued throughout the remainder of Manley's first term in office. Unlike the Venezuelan case, however, public expenditures were largely for the provision of services and consumer goods rather than capital investment. As such, public spending provided little basis for future economic growth.

In an attempt to offset the foreign exchange shortage, the Jamaican government increasingly borrowed from public and private sources abroad. The nation's external debt service

Table 4.12

Jamaican Central Government Accounts, 1976-1980
(Millions of J$)

| | 1976/77 | 1977/78 | 1978/79 | 1979/80 |
|---|---|---|---|---|
| Total Expenditure | 1164 | 1187 | 1752 | 1852 |
| Total Revenue | 654 | 674 | 1049 | 1102 |
| Deficit | 510 | 513 | 703 | 750 |
| Current Expenditure | 758 | 832 | 1139 | 1266 |
| Rate of Growth (%) | 23 | 10 | 37 | 11 |
| Total Expenditure (%) | 65 | 70 | 65 | 68 |
| Capital Expenditure | 406 | 354 | 613 | 586 |
| Rate of Growth (%) | 25 | 13 | 73 | -4 |
| Total Expenditure (%) | 35 | 30 | 35 | 32 |
| Tax Revenue: Total | 449 | 488 | 750 | 823 |
| Non-Tax Revenue | 42 | 42 | 27 | 41 |
| CDF Transfers | 80 | 110 | 268 | 232 |
| Tax Revenue: Rate of Growth | 2 | 1 | 54 | 10 |
| Total Expenditure (% of GDP) | 42 | 38 | 45 | 44 |
| Total Revenue | 26 | 23 | 28 | 26 |
| Deficit (% of GDP) | 15 | -13 | -19 | -17 |

Sources: Ministry of Finance and Public Service, Financial Statements and Revenue Estimates, 1976-1980; Bank of Jamaica, Report and Statement of Accounts, 1976-1980; National Planning Agency, Economic and Social Survey, 1976-1980.

bill was soon absorbing a greater proportion of net earnings.[56] In addition to the direct debt service requirements an increasing proportion of guaranteed debt was also falling to the government as a result of its takeover of institutions with outstanding debts. The direct and guaranteed debt service rose to 12.5 percent of exports of goods and services in 1976.[57]

By the end of 1977 gross foreign exchange reserves stood at J$75.5 million, an increase of J$11.2 million above the J$64.3 million level recorded at the end of 1976. In fact the foreign exchange situation had reached such crisis proportions that the foreign exchange market was temporarily closed.[58] (See Table 4.13) The government sector which includes both central government and other official institutions showed a decline of J$2.6 million in foreign assets to J$5.1 million, while the Bank of Jamaica also registered a decline in reserves from J$27.9 million to J$23.5 million.[59] The net foreign reserves at the end of the year stood at minus J$196.0

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[56]Richard Bernal, "The Vicious Circle of Foreign Indebtedness: The Case of Jamaica," in Antonio Jorge, Jorge Salazar-Carillo, and Rene Higonnet (eds.), External Debt and Economic Growth in Latin America. (New York: Pergamon, 1982B), pp. 111-128.

[57]Bank of Jamaica, 1976, op. cit., p. 3.

[58]Bank of Jamaica, 1977, op. cit., p. 1. OPEC's decision to further increase petroleum prices from five to ten percent in 1977 alone required an additional J$20 million.

[59]National Planning Agency, Economic and Social Survey 1977, p. 45.

Table 4.13

Jamaican Foreign Exchange Reserves, 1972-1979
(Millions of J$)

| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|---|---|---|
| Foreign Reserves | 102 | 164 | 223 | 176 | 64 | 75 | 81 | 97 |
| Holdings of SDRs | 7 | 7 | 6 | 5 | 1 | 15 | 5 | 1 |
| Reserve in IMF | - | - | - | - | - | - | - | - |
| Bank of Jamaica | 120 | 107 | 166 | 105 | 28 | 24 | 40 | 55 |
| Central Government | 4 | 2 | 2 | 5 | 6 | 4 | 8 | 15 |
| Other | 2 | 5 | 11 | 30 | 1 | 1 | 1 | 1 |
| Commercial Banks | 23 | 42 | 39 | 32 | 28 | 32 | 27 | 25 |
| Foreign Liabilities | -55 | 87 | 93 | 120 | 246 | 272 | 347 | 491 |
| Bank of Jamaica | - | 13 | 33 | 65 | 192 | 214 | 301 | 461 |
| Commercial Banks | -55 | 75 | 60 | 55 | 54 | 58 | 46 | 30 |
| Net Foreign Reserves | 115 | 76 | 130 | 57 | -181 | -196 | -265 | -393 |

Sources: National Planning Agency, Economic and Social Survey, 1973, 1975, 1977, 1979; Bank of Jamaica, Report and Statement of Accounts, 1979, p. 18.

million, a decline of J$14.6 million from the minus J$181.4 million recorded at the end of 1976.[60]

Foreign exchange shortages clearly hampered the nation's capacity to maintain steady and reliable production. The manufacturing sector, which was heavily dependent on importing raw material and capital goods, declined ten percent between 1974 and 1978. Substantially larger declines were registered in the sub-sectors most dependent on imports, such as paper products, petroleum refining, chemicals, and metal products. Real GDP declined .3 percent in 1978 and 1.4 percent in 1979.[61] By 1978 gross foreign exchange reserves represented little more than three weeks of imports at the 1977 level[62] while increases in international interest rates resulted in an additional thirty million dollars in payments on the nation's foreign commercial loans.

The performance of the Jamaican economy in 1979 was again hampered by limited foreign exchange reserves. The nation recorded an overall balance of payments deficit of J$128.1 million. By the end of the year net foreign assets of the Bank of Jamaica stood at minus J$789.2 million compared with

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[60]National Planning Agency, Economic and Social Survey 1977, p. 45.

[61]Bernal, 1984, op. cit., p. 64.

[62]Bank of Jamaica, Report and Statement of Accounts for the Year Ending December 31, 1978, p. 1.

minus J$449.0 million at the end of 1978.[63] Further oil price increases and international inflation exacerbated the nation's economic problems.

Jamaica's debt servicing obligations were also a major constraint for the government. The rising public sector debt from all sources during the 1970s is depicted in Figure 4.10. Debt servicing as a percentage of exports moved from five to nineteen percent between 1974 and 1979. The high real interest rates that generally prevailed during the 1976-78 period exerted a strong impact on the debt service burden of the country. Similarly, while external funds helped to finance only eight percent of the nation's capital budget in 1972 this figure had reached seventeen percent by the end of the decade.[64] While Jamaica was paying $32 million to service its debt in 1973, this rose to $103 million in 1976, $159 million in 1977, $211 million in 1978, and $254 million in 1979.

Clearly the government's eventual decision to enter into

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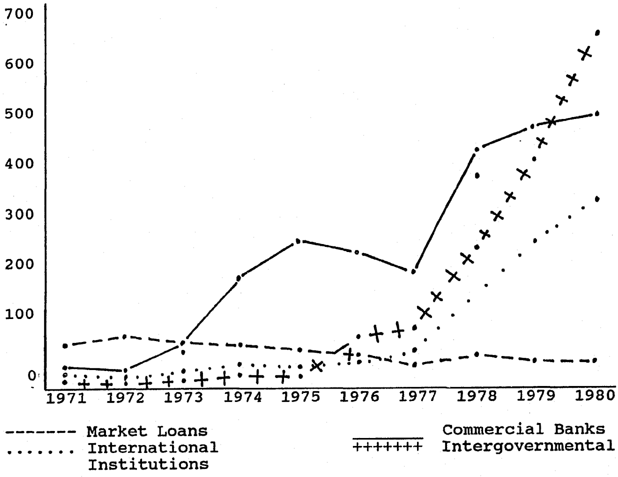
[63]Bank of Jamaica, Report and Statement of Accounts for the Year Ending December 31, 1979. The deficit in 1979 occurred even after allowance was made for allocation of J$9.1 million in Special Drawing Rights.

[64]It should be noted that by 1976 lending from private sources abroad came to almost a complete stop. By March 1976 the international commercial banks ceased making new loans to Jamaica. Consequently, the government was forced for the first time to have the Central Bank create money to close the gap in the budget. Although Jamaica was able to obtain some credit from European and Latin American nations these sources did not offset the loss of American sources.




<u>Figure 4.10</u> <u>Jamaican Public Sector Debt, 1971-1980</u>. Sources: Planning Institute of Jamaica, <u>Economic and Social Survey, 1972-1980</u>; Bank of Jamaica, <u>Statisitcal Digest</u>, March 1978, June 1982.

the 1977 IMF Agreement and enact the required liberal reforms was directly related to Jamaica's foreign exchange crisis. At the same time, this argument cannot fully account for economic policy choice during the 1970s. As outlined above, Jamaica's economic decline began as early as 1973 and reached crisis proportions by 1976. Yet not only were economically nationalist policies maintained between 1973 and 1977 but they were actually stepped up in a number of important respects. The bauxite levy and nationalizations coincided with deteriorating foreign accounts.

Moreover, the Manley administration rejected IMF Agreements throughout 1975 and 1976 and the highly nationalist Emergency Production Plan was devised in 1977. In addition, the government broke off relations with the IMF in 1980 and adopted the Alternative Plan at a time when the nation's external accounts were, by all objective measures, at their weakest point ever. Given Jamaica's deteriorating external position, international structural perspectives would have predicted liberalization of the nation's foreign exchange policies during this period.

Foreign Accounts and State Policy

The shift from economically nationalist to liberal policies in Venezuela and Jamaica has been fairly dramatic. This chapter has considered one explanation for this policy shift. The dependence perspective links trade and investment regimes with the relative strength or weakness of each nation's foreign accounts. While nations with positive external accounts are thought to be in a better position to adopt and defend protectionist measures, nation's struggling with foreign exchange and debt problems are expected to adopt liberal trade and investment policies.

Analysis of the Venezuelan and Jamaican cases does provide some support for this perspective. The shift from economic nationalism to neo-liberalism does correspond with a deterioration in both nations' external accounts. While the two countries had positive balance of payments and foreign reserves in the early 1970s, they faced foreign exchange shortages and large external debts at the end of the 1980s.

At the same time, this analysis is not completely satisfactory. In the Venezuelan case, the nation's external position deteriorated early in Perez's first term. While this deterioration was clearly not as severe as that of Jamaica's, it did represent a considerable departure from the strong economic position evident during the initial years of the Perez administration. Despite this downturn the administration continued to pursue economically nationalist policies, including the tightening of the nation's trade and investment regimes and the nationalization of the petroleum and iron-ore industries. Moreover, Venezuela's economic recovery since 1990 has not resulted in the reestablishment of nationalist policies.

The weaknesses evident in the international structural perspective are even more pronounced in the Jamaican case. On the one hand, given the small size, limited resources, and extreme dependence of the Jamaican economy, its difficult to make the case that the nation was ever in a position to challenge the liberal regimes. The fact that economically nationalist policies were maintained and even stepped-up in the face of a severe deterioration in the nation's foreign accounts lends little support to the structural argument.

At the same time, it is important to draw a distinction between the initiation and continuation of public policies. Once a policy has been adopted leaders have a variety of reasons for not wanting to change directions in mid-course. Given the patronage or clientelist nature of politics in both nations, Perez and Manley may have been willing to discount the future in order to avoid undercutting their existing political support. After a ten year hiatus from power, however, both leaders were in a better position to embark upon a completely different policy agenda upon returning to office.

While this distinction is crucial, it is also important to note that the structural argument posits a fairly direct and determinant relationship between external accounts and policy choice. The ability of both leaders to maintain trade and investment policies which ran counter to their objective environmental conditions would not have been predicted by the structural approaches. The fact that both leaders actually stepped up economically nationalist policies in the face of economic decline casts further doubt on these perspectives. Lastly, the Manley administration did alter its policies during the 1970s, shifting back and forth between the IMF and non-IMF paths. Given the intrinsic reasons why decision-makers would generally be expected to avoid such behavior, its occurrence in the Jamaican case points to the need for a more subjective interpretation.

As such, simply considering the relative strength of each nation's external position does not provide a completely satisfactory explanation for policy choice. The domestic sources of state policy and the often independent role played by the state and state decision-makers are considered in chapters five and six.

## Chapter Five

## DOMESTIC CONFLICT AND THE RESPONSE OF THE STATE

The preceding chapter considered the link between foreign accounts and state policy in Venezuela and Jamaica. While the relative strength or weakness of each nation's foreign accounts clearly conditioned state behavior, analysis of these accounts alone was unable to fully explain policy choice. In fact, the trade and investment policies of both nations sometimes directly contradicted what these perspectives would predict.

A key weakness of international structural arguments is their failure to consider the domestic environment. While these perspectives highlight external constraints on state policy, they tend to overlook a similar set of internal constraints on policy choice. Societal groups have clearly played an important role in shaping trade and investment policies in Venezuela and Jamaica and constitute the central focus of this chapter.

### Domestic Sources of Economic Policy

The distribution of power among various domestic groups and classes clearly conditions state behavior for few states enjoy absolute policy-making autonomy from civil society.

While societal groups are often dependent on state support, state authority and legitimacy is equally dependent on the support of powerful domestic actors. State policies frequently reflect the distribution of power in the society at large. Analysis of the domestic environment is especially important in Latin America and the Caribbean where resource scarcities and widespread poverty intensify societal conflict over goods and services.

The relative power and influence of two key economic groups - the traditional commercial agro-export elite and the domestic industrial class - is especially significant. In those cases where the commercial-export sector, with close ties to foreign capital, is dominant, local elites can generally be expected to favor the free movement of goods and capital. This is especially true where the agrarian or mineral production sectors are the key pillars of the nation's economy. In these cases, there is often a strong alliance between foreign capital, the landed oligarchy, and the merchant class. Conversely, in those cases where a industrial or manufacturing sector producing for the domestic market has emerged, more economically nationalist policies, which limit foreign trade and investment, would be expected.

As noted in chapter two, this perspective was frequently advanced to account for the economically nationalist policies of the 1960s and 1970s. The ascendancy of a new national capitalist class in Latin America and the Caribbean, it was argued, led to reforms designed to shield the domestic economy from world market forces and to protect local industry from foreign competitors.

Venezuela's Neo-Colonial Export Economy

A domestic structures perspective is often employed to account for economic policy choice during the two administrations of Carlos Andres Perez. During the early part of the twentieth century, Venezuela's economy was primarily based on the export of agricultural commodities. The agricultural sector supported over seventy percent of the country's population. Typical of an enclave economy, Venezuela provided agricultural commodities in exchange for finished goods produced abroad. While shifts in European tastes largely determined which products were produced, coffee eventually came to represent about two-thirds of export earnings.

Venezuela's economic and social structure remained largely unchanged from the colonial period. An agrarian oligarchy dominated the economy. Their large estates or "latifundias" covered the vast majority of the nation's fertile lands while more marginal lands were farmed by subsistence peasants. This oligarchy maintained its monopoly over land through repressive measures at the local level while an effective central government was virtually non-existent.

Capital which was accumulated in the agrarian sector was rarely invested in manufacturing or other development activities.[1] Rather, these earnings were generally used to import consumption goods for the small elite. There was a close alliance between this agro-export oligarchy and foreign interests with the Venezuelan economy linked to global markets through the large European export houses. There was also considerable foreign investment in agriculture, transportation and public works.

The discovery of petroleum in 1922 produced profound changes in the structure of political and economic power in Venezuela.[2] Petroleum exports soon came to dominate the economy.[3] With the transition from an agrarian to an oil-exporting economy large landowners lost their position of privilege and power shifted to the small merchant class and

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[1]For example, in 1913 invested capital in manufacturing was only about Bs 55 million as compared to Bs 212 million in farming, Bs 104 million in ranching, Bs 170 million in transport, and Bs 302 million in commerce. Most of the manufacturing firms were small and approximately four-fifths of the invested capital was accounted for by some thirty enterprises, each with a capital of more than Bs 250,000. Only a handful of firms had more than one million bolivars in invested capital and few employed more than one hundred workers.

[2]Armando Cordova, "La Estructura Economica Traditional y el Impacto Petroleo en Venezuela," Revista Economia y Ciencias Sociales. Facultad de Economia. Universidad Central de Venezuela, Ano 5, No. 1 (January-March 1963), pp. 7-28 and Oscar Echevarria, La Economia Venezolana: 1944-1984, (Caracas: FEDECAMARAS, 1984).

[3]By 1926 petroleum replaced coffee as the nation's primary export crop and ever since the mid-1930s petroleum and petroleum products have accounted for about ninety percent of the country's total exports.

foreign corporations which quickly moved into the petroleum sector.[4]

Control of the petroleum industry rested firmly with the foreign interests. With very little technological or scientific expertise of its own and virtually no economic infrastructure, the initial bargaining position of the Venezuelan government was extremely weak. The government had little control over pricing and its revenue was dependent on what the state could capture through a combination of taxes and royalties.

State policy reflected the dominance of foreign capital and the commercial sector. The government of Juan Vincente Gomez (1908-1935), for example, placed few restrictions on trade or investment. In fact, the initial concession to the American, British, and Dutch petroleum companies were quite generous. The government agreed to exempt the oil companies from a wide range of taxes and renounced its right to raise or impose any new taxes in the future. The Gomez regime also maintained free importation of foreign products, free convertibility of foreign exchange, and easy repatriation of

[4]In the 1920s there were two groups of foreign firms competing for oil exploitation, Royal Dutch Shell and a group of American investors. By the mid-1930s eighty percent of foreign investment was being channelled into the petroleum industry. This industry came to represent the single greatest locus of American investment in Latin America.

profits.[5]

Liberal foreign economic policies continued under the governments of Eleazar Lopez Contreras (1936-1941) and Isaias Medina Angarita (1941-1945).[6] Venezuela entered into a trade agreement with the United States in 1939 (The Treaty of Commercial Reciprocity) which allowed for the free importation of approximately two hundred manufactured products from the U.S. and called for the free movement of goods and services between the two nations.[7] The government also granted substantial tax incentives to foreign firms and considerable autonomy to the petroleum industry.[8]

Industrialization was quite limited in the period before the Second World War due to the small size of the domestic market. The vast majority of people continued to live at a subsistence level while those manufactured goods which were

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[5]The Gomez regime created the first effective state machine, unifying the country administratively and politically and eliminating locally based military power and regional conflicts.

[6]These regimes were only able to fully consolidate their rule through American and European assistance.

[7]The agreement was renewed and extended in 1952, substantially reducing the prospects for industrial development.

[8]It should be noted, however, that the Medina administration did introduce some measures to assert greater state control over the petroleum industry. The 1943 petroleum law ended the practice of granting new concessions to foreign firms and provided for the reversion of existing concessions to the government after their expiration. It also made the profits of the petroleum companies subject to national taxes.

needed could be obtained from abroad.

## The Emergence of Domestic Capital

The Venezuelan economy did experience some transformation in the post-war period. The Second World War caused a temporary interruption in the flow of imports to Venezuela which stimulated the development of some import substitution industries.[9] Expansion of the petroleum industry also helped stimulate other sectors of the Venezuelan economy.[10] On the one hand, small farmers were increasingly leaving rural areas

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[9]For a more detailed review of the development of local capital in Venezuela see M. A. Falcon Urbano, Desarrollo y Industrializacion de Venezuela. (Caracas, Universidad Central de Venezuela, 1969); Banco Central de Venezuela, La Economia Venezolana en los Ultimos Treinta Cinco Anos. (Caracas, 1978); G. Arenas et. al., Primeras Manufactural Venezolanas. (Caracas: Universidad Central de Venezuela, Escuela de Trabajo Social); and Domingo Mendez R. "Analisis Socioeconomico de Venezuela," Curso de Formacion Socio-Politica No. 8, (Caracas, Centro Gumilla, 1985).

[10]A number of scholars have examined the role of the petroleum industry in Venezuela's overall development. Some of the more notable studies include Jorge Salazar-Carrillo, Oil in the Economic Development of Venezuela. (New York: Praeger, 1976); Alfredo Machado Gomez, El Desarrollo Economico de Venezuela en los Ultimos Veinte-Cinco Anos: Hechos y Cifras Relevantes. Caracas: Banco Central de Venezuela, Coleccion XXV, (June 1966), pp. xi-xxxiv; Orlando Araujo, "Caracterizacion Historica de la Industria de Venezuela," Revista Economia y Ciencias Sociales. Universidad Central de Venezuela. Facultad de Ciencias Economicas y Sociales, Ano 6, No. 4, Segundo Epoca, (October-December 1964); Araujo, Situacion Industrial de Venezuela. (Caracas: Universidad Central de Venezuela, 1969); and Araujo, "La Industrializacion de Venezuela," in D. F. Zavala (et. al.) Venezuela: Crecimiento Sin Desarrollo. (Caracas: Editorial Nuestro Tiempo, 1976), pp. 239-255.

to work for the oil companies.[11] The wages, investments, royalties, and taxes paid by the foreign companies increased aggregate demand and led to an expansion of the internal market for goods and services.[12] An overvalued bolivar expanded domestic investment opportunities, particularly in the capital goods industry, and new construction techniques and the importation of electrical generators after the war provided the physical capacity and power sources required for factory production.

Figures 5.1 and 5.2 diagram the expansion of manufacturing investment between 1950 and 1973. In 1950 the commercial sectors fixed gross investment was almost double that of the industrial sector. By 1957 the industrial sector had slightly surpassed commerce.[13] Table 5.1 provides data on the number of people employed in agricultural, mining, manufacturing, and construction activities between 1920 and

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[11]Considerable migration toward the urban centers occurred from the six states (Tachira, Trujillo, Lara, Sucre, Miranda, and Merida) that had previously produced the largest share of the nation's coffee exports. Between 1935 and 1950 the urban population increased from twenty-nine percent to forty-eight percent. M. A. Acosta. "Urbanization y Clases Sociales en Venezuela," Revista InterAmericana de Planificacion. Vol. VII, (June 1973), pp. 22-44.

[12]Miguel Angel Capriles, Siempre Habra Venezuela. Caracas: Editorial Domingo-Fuentes y Asociados, 1985 and Tomas Enrique Carillo Batalla, "La Dinamica del Desarrollo Economico Venezolano," Revista Economia Latinoamericana, No. 17, (1965), pp. 45-68.

[13]Principales Caracteristicas de la Industrial Manufactura en el Period 1950-1960. Programa de la Industria Manufactura Para el Periodo 1963-1966, 1963.

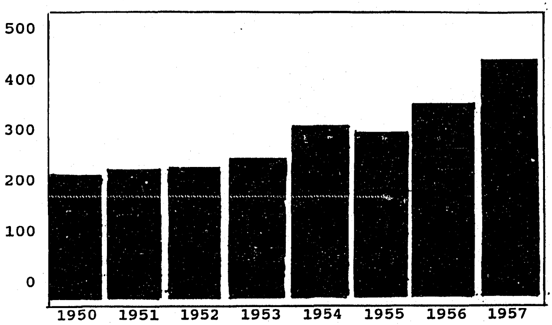


Figure 5.1 Venezuelan Manufacturing Activity, 1950-1957. (Millions of bolivars) Sources: Central Bank of Venezuela, La Economia Venezolana en los Ultimos Treinta Cinco Anos, 1978; CORDIPLAN, "Principales Characteristicas de la Industrial Manufactura en el Periodo 1950-1960. Programa de la Industria Manufactera Para el Periodo 1963-1966," 1963.

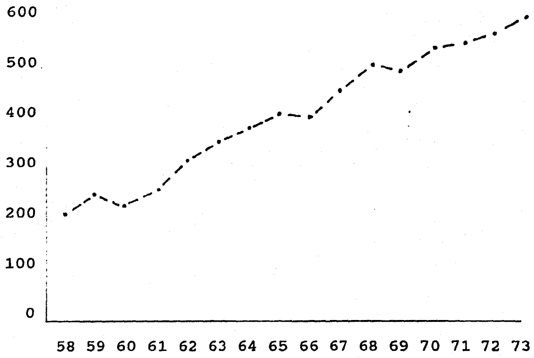


Figure 5.2. Venezuelan Manufactured Product, 1958-1973. (Constant 1957 prices used for the period 1950-1968 and constant 1968 prices used for the period 1969-1973) Sources: Central Bank of Venezuela, La Economia Venezolana en los Ultimos Treinta-Cinco Anos, 1978; CORDIPLAN, Encuestra Industrial, 1961, 1966, 1973.

Table 5.1

Venezuelan Distribution of Industries, 1920-1971
(Thousands)

| | Estimates | | Census Results | | | |
|---|---|---|---|---|---|---|
| Industry | 1920 | 1936 | 1941 | 1950 | 1961 | 1971 |
| Agriculture | 437 | 625 | 636 | 705 | 721 | 605 |
| Petroleum and Mining | 2 | 15 | 23 | 45 | 46 | 37 |
| Manufacturing | 56 | 148 | 176 | 172 | 247 | 386 |
| Employees | 20 | 51 | 60 | 111 | 194 | - |
| Others | 36 | 97 | 116 | 61 | 97 | - |
| Construction | 8 | 24 | 36 | 96 | 103 | 179 |
| Commerce | 51 | 64 | 97 | 150 | 266 | 366 |
| Transport | 16 | 25 | 42 | 52 | 96 | 120 |
| Services | 48 | 180 | 210 | 342 | 505 | 757 |
| Government | 13 | 56 | 58 | 114 | 178 | - |
| Domestic | 35 | 108 | 124 | 148 | 129 | - |
| Other | - | 16 | 28 | 78 | 198 | - |
| Unspecified | - | - | 20 | 37 | 59 | 378 |
| Total | 639 | 1082 | 1240 | 1599 | 2043 | 2829 |

Sources: Armando Cordova and Manuel Felipe Garaicoechea, "Inversiones Extranjeras y Desarrollo Economico" (mimeo), cited in Jose A Silva Michelena, The Illusion of Democracy in Dependent Nations, 1971, pp. 55; Armando Cordova, "Consideraciones Acerca del Tipo de Desarrollo Alcanzado por la Economia Venezolana," Economia y Ciencias Sociales, Vol. 2, No. 44; CORDIPLAN, Plan de la Nacion, 1965-1968, pp. 81 and 83; Central Bank of Venezuela, La Economia de Venezuela en los Ultimos Treinta Cinco Anos, 1978, p. 25.

1971.

Venezuela enjoyed the highest economic growth rate of all Latin American nations during the 1950s. Growth was especially strong in metal fabrication, synthetic rubber, chemicals, plywood, paper, paints, auto assembly and parts, fertilizer, cement, electrical energy, and construction.[14] The value of imports declined from Bs. 5.6 billion in 1957 to Bs. 3.7 billion in 1963.[15]

The emergence of a domestic manufacturing sector radically reshaped Venezuela's political landscape. The commercial elite, which up to this point had maintained almost complete hegemony over political power, suddenly found themselves challenged by new urban groups. Local industrialists had an interest in redirecting the development process along more nationalist lines.

Political developments reflected this conflict between old and new capital. The most significant development was the establishment of Accion Democratica (AD) in 1941.[16] AD was

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[14]CORDIPLAN, Encuestra Industrial, 1961, 1966; and R. Salas Capriles, El Desarrollo Industrial en Venezuela 1979: Examen y Futuro. (Caracas: Editorial Atenco, 1980).

[15]CORDIPLAN, El Desarrollo Industrial de Venezuela, 1968 and Encuestra Industrial: Documento Basico, 1968.

[16]Jose Agustin Catala, Accion Democratica: 1936-1941. (Caracas: Ediciones Centauro, 1981); J. C. Rey, "El Sistema de Partidos Venezolanos," Politica No. 1, (1972), pp. 175-231; and Manuel Magallanes, Los Partidos Politicos en la Evolucion Historica Venezolana. (Madrid: Ediciones Mediterraneo, 1973).

the first political party to actively seek the support of the new urban classes, especially small and medium size industrialists.[17] In 1945 AD leaders, aided by a group of young military officers, staged a successful coup. AD founder Romulo Betancourt led the new government for the first two years at which time Romulo Gallegos, also of AD, was elected president in the nation's first direct popular elections.

This period, (known as the "trienio") was characterized by economically nationalist policies and direct state intervention in the economy. The government placed particular emphasis on gaining greater national control over the petroleum industry.[18] The government also sought to promote autonomous national development. The Venezuelan Development Corporation (CVF) was established in 1946 to foster industrial development and the government established publicly-owned

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[17]Accion Democratica's roots are frequently traced to the 1928 student demonstrations against the Gomez dictatorship. Many of those associated with the Federation of Venezuelan Students (FEV) later formed the nucleus of two other groups, the Party of National Liberation and the Revolutionary Group of the Left (ARDI). These groups were then the foundation for the establishment of AD. ("Los Partidos Politicos en Venezuela," <u>Curso de Formacion Socio-Politica</u>. No. 16, Caracas: Centro Gumilla, 1988).

[18]The government brought an end to the practice of granting new concessions to the foreign firms, directly intervened in setting oil production levels and prices, and sought direct participation in oil and petro-chemical production. The government also established the principle that at least fifty percent of the petroleum industry profits must revert to the state. Oil revenues would then be used to promote domestic capital accumulation. This was reflected in the Petroleum Laws of 1946 and 1948.

manufacturing enterprises and provided loans and other incentives to private entrepreneurs.[19]

Civilian rule came to an abrupt end in November 1948. Sensing an increasing threat to its power base, particularly in light of AD efforts to organize workers and peasants, the military once again staged a coup and AD was driven underground. Although the ruling military junta was made up of three lieutenant colonels, Marcos Perez Jimenez gradually emerged as the nation's undisputed ruler.[20]

The Perez Jimenez regime reversed many of the economically nationalist policies of the trienio government. The reciprocal trade pact with the United States was renewed in 1952[21] and the government also supported increased foreign investment, virtually granting free access to foreign corporations and assuring the free convertibility of the

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[19]Credit policy gave preference to enterprises that used a high proportion of domestic raw materials and labor intensive techniques and legislation was adopted to protect domestic industry from foreign competition.

[20]In addition to Perez Jimenez, the junta included Carlos Delgado Chalbaud and Luis Felipe Llovera Paez. When Delgado, the junta's nominal president, was assassinated in November 1950, a civilian was temporarily put into office. Real power, however, rested with Perez Jimenez. In the 1952 election, when the Democratic Republican Union (URD) candidate, Jovito Villalba, appeared to be leading, Perez Jimenez called for an end to the counting and declared himself the winner.

[21]Central Bank of Venezuela, <u>Tratado de Reciprocidad Comercial entre Venezuela y los Estados Unidos</u>, Temos Economicos, Vol. II, No. 17, (May 1952), pp. 48-65.

bolivar.[22]

Civilian rule returned to Venezuela in 1958. The Perez Jimenez regime had been so repressive, and abuses had been so extensive, that virtually all segments of Venezuelan society rose up against it in a combined military and civilian rebellion.[23] Betancourt reemerged as the leader of the new ruling junta and became the nation's president in 1959.

Returning to power after a decade in exile, AD once again adopted a more nationalist posture toward the transnationals.[24] Characterizing the previous policy as "republic for sale," Betancourt sought to lessen the degree of foreign control over the nation's economy. The government modified the Treaty of Commercial Reciprocity with the United States in 1960 to place greater restrictions on imports. In addition, import duties, quotas and other non-tariff barriers were placed on a wide range of agricultural and industrial

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[22]At the same time, some tariffs were used to protect infant industries in consumer non-durables, intermediate goods, and those foodstuffs and raw materials that were processed by the existing national companies.

[23]It is interesting to note that opposition to the Perez Jimenez regime had even emerged among the nation's economic elite who ostensibly benefitted from the government's policies. This was true in part because the uncompromising and brutal repression of the dictatorship which threatened to radicalize the urban poor and working class.

[24]Robert Alexander. The Venezuelan Democratic Revolution: A Profile of the Regime of Romulo Betancourt. (New Brunswick: Rutgers, 1964), and Accion Democratica, Accion Democratica: Doctrina y Programa, (Caracas, 1962).

products.[25] At the same time, customs duties on imported raw materials and intermediate and capital goods for domestic industry were relaxed.[26] This helped create conditions favorable for deepening the import substitution process. The government also reactivated the Venezuelan Development Corporation (CVF) which granted funds to small and medium size private investors in various manufacturing industries such as textiles, food processing, and pharmaceuticals.[27] Legislation was also adopted to restrict the activities of foreign corporations.[28] The government reinstated the policy of not granting further concessions to the transnational petroleum firms and established the publicly-owned Venezuelan Petroleum Corporation (CVP).

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[25]Because the Treaty of Commercial Reciprocity limited use of protective tariffs, Venezuela has employed a complex system of quantitative controls to prohibit imports of a whole series of manufactured items. Protective legislation was specifically designed to support such industries as food processing, construction materials, metal fabrication, synthetic rubber, chemicals, plywood, paper, fertilizer, cement, textiles, and pharmaceuticals.

[26]In addition, Decree 512 (1959) required government agencies to give a twenty-five percent margin of preference to national goods in their purchases.

[27]D. A. Rangel. El Proceso del Capitalismo en Venezuela. (Caracas: Universidad Central de Venezuela, 1968).

[28]Decree 698 of 1962 stipulated that licensing of foreign firms would be based on the following criteria: potential absorption by the internal market, use of domestic inputs, and impact on employment, the price level, and value added, and the amount of foreign exchange the industry would save. These same criteria were used for duty exemptions on imported machinery and raw materials and access to public financing.

Economically nationalist policies continued under the AD regime of Raul Leoni (1964-1969) and, to a lesser extent, under the Social Christian (COPEI) regime of Rafael Caldera (1969-1974). In 1965, for example, a law was passed which required all insurance companies to have a minimum of fifty-one percent domestic ownership. Similarly, the Bank Reform Law of 1970 required all commercial banks to reduce foreign ownership to twenty percent and prohibited new foreign investment in this sector. The United States-Venezuelan trade agreement was abrogated in 1972 and the specific rates were replaced with ad valorem rates. Duties on final and semi-manufactured products were elevated to a level considerably higher than those on intermediate and capital goods. The government also removed duties on inputs for domestic manufacturing and development projects.

## Empirical Critique

A number of scholars have argued that the economically nationalist policies of the first Perez administration were the logical consequence of changes in Venezuelan economy and society during the previous three decades; that they correspond with the emergence of a local manufacturing sector producing for the domestic market with interests distinct from the old commercial-transnational export sector.[29] Highly protectionist trade and investment legislation and the nationalizations of the steel and petroleum industries, it is contended, served the interests of domestic capital.

Clearly changes in Venezuela's domestic structures have conditioned state behavior and help account for the adoption of specific trade and investment policies. At the same time, close analysis of the Venezuelan economy and society casts some doubt on the explanatory power of this perspective.

To begin, it is difficult to make the argument that the Venezuelan manufacturing sector was ever in a politically powerful position. Manufacturing in Venezuela retained a relatively smaller share of total output due to the weight of the oil industry in the economy as a whole.[30] The large

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[29]This perspective is possibly best represented by the following works: Clemy Machado de Acedo, "El Estado y Su Papel en la Conformacion de la Sociedad Capitalista Venezolana," in Acedo, (ed.) Estado y Grupos Economicos en Venezuela. (Caracas: Ateneo, 1981A); Gene Bigler, La Politica y el Capitalismo de Estado en Venezuela. (Madrid: Editorial Tecnos, 1981); Gaston Carvallo and Josefina Hernandes. Dominacion Burguesa y Democracia Representativa en Venezuela: Apuntes para la Evaluacion de su Funcionamiento. (Caracas: CENDES, 1979); Frederico Brito Figueroa, Historia Economica y Social de Venezuela, Vol. 2, 1974, (Caracas: Universidad Central de Venezuela, 1974); Wolfgang Hein, "Oil and the Venezuelan State," in Peter Nore and Terisa Turner, (eds.) Oil and Class Struggle. (London: Zed Press, 1980), pp. 224-251; and M. Ignacio Purroy, Estado y Industrializacion en Venezuela. (Valencia: Editores, 1986).

[30]Mostafa Hassan, Economic Growth and Employment Problems in Venezuela: An Analysis of an Oil Based Economy. (New York: Praeger, 1975) and Victor Tokman, "Distribucion del Ingreso, Tecnologia y Empleo en el Sector Industrial de Venezuela," in El Esfuerzo Interno y las Necesidades de

revenues from the petroleum industry always brought in enough foreign exchange to allow the country to meet its import requirements. In addition, the rapid increase in petroleum export earnings placed greater pressure on the bolivar than the currencies of other Latin American nations. Because the rate of exchange was frequently overvalued in the post-war period, the structure of production shifted away from the goods-producing sectors which competed with imports towards the commercial and service sectors. Most of the additions to the labor market during the 1950s and 1960s occurred in the service sectors rather than manufacturing.

The oil industry was largely an enclave economy cut off from the other sectors of the Venezuelan economy.[31] Improvements in Venezuela's infrastructure initiated by the foreign oil companies provided few benefits for the nation as a whole. While a network of transport, commercial and

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Financiamiento Externo Para el Desarrollo de Venezuela. Vol. II, (Washington, DC: OEA-CIAP, 1972), pp. 1-74.

[31]Luis Ugalde and Juan Carlos Navarro, "Analisis Socio-Economico de Venezuela," Curso de Formacion Socio-Politica. No. 9, (Caracas: Centro Gumilla, 1981). Luis Pedro Espana outlines the degree to which domination of the economy by the petroleum sector impeded the development of other industries. See "Venezuela y Su Petroleo: El Destino de la Renta," in Curso de Formacion Socio-Politica, No. 1, (Caracas: Centro Gumilla, 1988A) and "Venezuela y Su Petroleo (II) El Origen de la Renta," in Curso de Formacion Socio-Politica, No. 10, (Caracas: Centro Gumilla, 1988B). The limited internal circulation of capital is reflected in the fact that during this period reserves in commercial banks increased at twice the rate of new capital investment and earnings from portfolios.

financial services was established to support the petroleum industry, the rest of economy was largely unaffected. In fact, the roads and bridges constructed by the transnational firms were frequently closed to the general public.

A domestic structures perspective is also weak on another count: the industries which did emerge were rarely autonomous from the commercial/transnational sector.[32] The Venezuelan economy remained highly dependent on foreign capital[33] with a large part of the manufacturing and construction industries being foreign owned.[34] By 1970 gross accumulated foreign

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[32]As Mendez (1985, op. cit.) notes, the same groups that controlled the commercial and financial enterprises also controlled industry. See also Ugalde and Navarro, 1981, op. cit.; Sergio Bitar and Eduardo Troncoso. "Venezuela y America Latina: Industrializacion Comparada, in Problemas del Desarrollo de America Latina y el Caribe, (Caracas: AEALC, 1982), pp. 227-245; and Omar Bello R and Romano Suprani M, Notas Sobre el Modelo de Acumulacion de la Economia Venezolana, (Caracas: Banco Central de Venezuela, 1980).

[33]Mendez, 1985, op. cit. The professed objectives of the import substitution were largely unrealized. The strategy did not decrease in imports, increase industrial employment, or reduce the degree to which production was controlled by large transnationals. Between 1965 and 1969, 96.2 percent of patents registered in Venezuela were foreign-owned.

[34]Paradoxically, American companies were attracted to Venezuela during the 1950s and 1960s precisely because of the tariff barriers which were instituted. These investors chose to move their operations to Venezuela rather than loose the lucrative consumer market fueled by petroleum wealth. The companies were often able to access local credit to construct capital intensive industries which imported raw materials and intermediate products for assembly or finishing in Venezuela. See N. Rodriguez, Algunas Consideraciones Sobre la Industralizacion en Venezuela. (Caracas: Universidad Central de Venezuela, Facultad de Ciencias Economicas y Sociales, 1975).

investment in Venezuela totaled $5.57 billion, the largest figure for any Latin American country.[35] American companies in particular developed a major stake in the non-oil sectors of the Venezuelan economy.[36] While investments in the petroleum and manufacturing sectors as a percentage of total U.S. investment stood at seventy-two and thirteen percent respectively in 1966, by 1974 these figures had shifted to thirty-seven and thirty-four percent respectively.[37]

A close alliance between Venezuelan industrialists and foreign capital was forged.[38] The government's economic policies, although frequently accompanied by nationalist

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[35]Although a significant proportion of this investment was in the petroleum industry, foreign capital was also well represented in such industries as electrical machinery, automobile assembly, metal products, chemical products, non-metal minerals, phamaceuticals and petro-chemicals, construction, commerce, financial institutions, and services.

[36]Jose Antonio Mayobre, La Inversion Extranjera en Venezuela, (Caracas: Monte Avila Ediciones, 1970).

[37]U.S. investment in chemical products, food products, machinery, and transport equipment increased by over one hundred percent during this period. Associacion Pro-Venezuela, Las Inversiones Extranjeras en Venezuela, Caracas, 1973.

[38]For a more detailed analysis of this alliance see H. Malave Mata, Formacion Historica del Antidesarrollo de Venezuela. Havana 1974; Sara Cabrera G, Analisis de la Inversion Extranjera Directa en Venezuela. (Caracas: CENDES, 1981); Fred Jongkind, Venezuelan Industry: Dependent or Autonomous. (Amsterdam: Center for Latin American Research and Documentation, 1981); D. F. Maza Zavala, Venezuela: Una Economia Dependiente, (Caracas: Universidad Central de Venezuela, Facultad de Economia, 1964); Sergio Aranda, La Economia Venezolana: Una Interpretacion de Su Modo de Funcionamiento, (Bogota: Siglo Veintiuno Editores, 1977).

rhetoric, generally supported this alliance.[39] For example, the government never really enacted policies to discourage foreign investment. In fact, AD governments during the 1960s sought to encourage the establishment of branch plants of foreign manufactures in collaboration with Venezuelan capital. These policies also provided new opportunities for links between foreign and domestic capital.[40] Table 5.2 and Figure 5.3 show the extent of foreign investment in Venezuela in comparison to the other Andean nations while Figure 5.4 breaks down this investment into the various sectors of the economy.

The domestic structures argument also fails to recognize the degree to which the Venezuelan state has emerged as an

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[39]This argument is more fully developed by Daniel Hellinger ("Populism and Nationalism in Venezuela: New Perspectives on AD," Latin American Perspectives, Vol. 11, No. 4, Fall 1984, pp. 33-59). For Hellinger, the policy of no new concessions in the petroleum industry, for example, actually worked to the advantage of the three largest corporations which already had large, rich, unexploited concessions in Venezuela. New concessions would have only invited more competition. In addition, the policy of reserving fifty percent of oil industry profits for the state was also a retreat; it represented a decline from the sixty percent share that was achieved under Medina administration and established a virtual cap on the petroleum rent. A similar argument is advanced by Armando Cordova, Inversiones Extranjeras y Sub-Desarrollo: El Modello Primario Exportador Imperialista. (Caracas: Universidad Central de Venezuela, 1973).

[40]Comision Economica Para America Latina, (CEPAL), La Distribucion del Ingreso en America Latina, (New York: United Nations, 1970).

Table 5.2

Foreign Investment in the Andean Pact, 1970-1977
(Millions of U.S.$)

| | 1970A | % | 1977A | % | 1977B | % |
|---|---|---|---|---|---|---|
| Bolivia | 75 | 1.4 | 120 | 1.5 | 30 | 1 |
| Colombia | 900 | 17.4 | 1400 | 17.5 | 800 | 24 |
| Ecuador | 300 | 5.8 | 88 | 11 | 148 | 4 |
| Peru | 880 | 17 | 2000 | 25 | 890 | 27 |
| Venezuela | 3000 | 58 | 3600 | 45 | 1480 | 44 |
| Total | 5155 | 100 | 8000 | 100 | 3342 | 100 |

A = Includes foreign investment in mining and hydrocarbons.
B = Excludes foreign investment in mining and hydrocarbons.

Source: Superintendency of Foreign Investment, Memoria 1977; Central Office of Statistics and Information, Anuario Estadistica de Venezuela, 1989; Sara Cabrera, "Analisis de la Inversion Extranjera Directa en Venezuela," CENDES, 1981, p. 47.

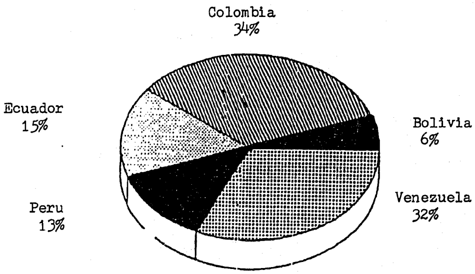
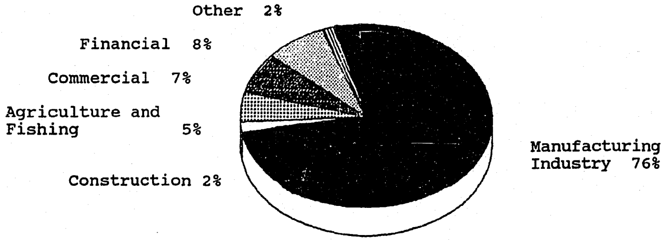



Figure 5.3 Foreign Investment in the Andian Pact, 1973-1989. Source: FEDECAMARAS, Unidad de Analisis Economico, La Inversion Extranjero Directa en Venezuela. Serie Temas Economicos. Unidad de Analisis Economico, March 1991




<u>Figure 5.4</u> <u>Foreign Investment in Venezuela, 1973-1990</u>. Source: FEDECAMARAS, Unidad de Analisis Economico, <u>La Inversion Extranjero Directa en Venezuela</u>. Serie Temas Economicos. March 1991.

autonomous economic actor in its own right.[41] The policies adopted both before and during the first Perez administration led to greater state control and ownership of the nation's productive assets rather than advancing the interests of private industrialists. Given the weakness of Venezuela's private sector and the limited success of import substitution, the capital development process in Venezuela has long been characterized by the strengthening of the state's economic role.[42] In the post-war period the state was gradually transformed from promoting private accumulation to an entrepreneurial state and the primary agent of capital accumulation.[43] This process continued in the 1960s when the

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[41]See Mendez, (1985, op. cit.), who traces the origins of state capitalism in Venezuela back to the Perez Jimenez period. Further analysis of the state's role in the production and distribution of goods and services can be found in Ugalde and Navarro, 1981, op. cit.; Juan Pablo Perez Sainz and Paul Zarembka, "Accumulation and the State in Venezuelan Industrialization," Latin American Perspectives. Vol. 6, (Summer 1979), pp. 5-29; and Jorge Fontanals, El Capital Financiero Internacional y la Expansion del Estado Venezolano: Analisis de su Funcionalidad en la Actual Etapa. (Caracas: CENDES Mimeo, 1980).

[42]Heinz Sonntag and Rafael de la Cruz, "The State and Industrialization in Venezuela," Latin American Perspectives, Vol. 12, No. 4, (Fall 1985), pp. 75-104; Tosca Hernandez, La Intervencion del Estado en la Industria Manufacturera Venezolana. (Caracas: Universidad Central de Venezuela, 1979); and Janet Kelly de Escobar, "Las Empresas del Estado: Del Lugar Comun al Sentido Comun," in Moises Naim and Ramon Pinango, (eds.) El Caso Venezuela: Un Illusion de Armonia. (Caracas: Ediciones IESA, 1984, pp. 122-151).

[43]This can be traced back to the Hydrocarbons Law of 1943 which greatly increased government control over the petroleum industry and the creation of the Production Council in the same year which was the first instance of direct financing of

state became directly involved in the production of petrochemicals and basic metals. State involvement in these industries was undertaken because of the large start-up costs and low turnover which made them unprofitable in the initial phase.

Clearly the policies of the first Perez administration were designed to advance state rather than private accumulation. The Fifth National Plan called for vastly expanding capital accumulation by the state in infrastructure and strategic sectors. The quadrupling of petroleum income in the twelve months preceding Perez's inauguration placed a flood of new capital at the disposal of the incoming administration. Perez hope to create a "Gran Venezuela" by "sowing the oil bonanza" in ambitious projects of industrial expansion.[44] The government hoped to use state enterprises to move beyond the import substitution process; to deepen the industrialization process by achieving vertical integration of

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industry by the state. Public investment in fixed assets rose continually in the 1950s, reaching a peak in 1957 of almost half of total investment.

[44]This included the overnight creation of a huge metallurgical sector in resource rich Guayana. The Venezuelan Guayana Corporation (CVG) owns and operates Venezuela's largest complex of heavy industry, hydroelectric power, and mining concerns. Founded in 1960, the CVG Group today is the parent company of thirteen core subsidiaries working in the following areas, production of primary aluminum and alumina, as well as the manufacture of aluminum products, generation and transmission of hydroelectric energy, mining of gold, iron ore, bauxite and other minerals, steel, and related businesses, forestry, agriculture, commercial fishing, agribusiness, and urban development.

the economy through development of basic industries producing intermediate and capital goods.[45] The plan called for increasing public investment one hundred and sixty-eight percent over the previous plan and tripling state investment in the manufacturing sector. Table 5.3 provides data on public investment between 1972 and 1979 while Table 5.4 outlines public sector expenditures between 1960 and 1975.[46]

Nationalizations of the petroleum and steel industries also advanced state rather than private sector interests. By the end of Perez's first administration the state was directly responsible for nearly seventy percent of capital accumulation in the economy and employed approximately a quarter of the working population. Table 5.5 records the expansion in the number of state enterprises which occurred during the 1960s and the first two years of the Perez administration.[47]

Lastly, the domestic structures perspective is unable to account for the recent shift toward liberal trade and investment policies in Venezuela. In many respects, the

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[45]Nearly sixty percent of public investment was to flow into basic industries, such as petrochemicals, the exploitation of coal deposits, a new steel complex, hydroelectric projects, a national rail system, and modernized port facilities. The development of state-owned steel and aluminum industries were expected to lead Venezuela away from dependence upon petroleum exports.

[46]The public investment target was $5 billion per year as compared to just $1.5 billion in 1974.

[47]Gil Yepes, et. al. El Estado Blanco Venezolano y las Empresas Publicas, 1987.

Table 5.3

Venezuelan Government Investment, 1972-1979
(Millions of Bolivars)

| Year | Government Total | Income From Petro | Total Govt. Spending | Government Investment |
|---|---|---|---|---|
| 1972 | 12,546 | 7,881 | 12,413 | 3,489 |
| 1973 | 16,432 | 11,180 | 14,572 | 4,485 |
| 1974 | 42,800 | 36,445 | 39,471 | 24,103 |
| 1975 | 41,001 | 31,648 | 40,015 | 20,749 |
| 1976 | 43,143 | 28,012 | 37,351 | 17,651 |
| 1977 | 51,179 | 29,421 | 48,803 | 24,378 |
| 1978 | 50,663 | 25,174 | 47,341 | 19,795 |
| 1979 | 48,432 | 33,308 | 43,092 | 10,935 |

Source: Central Bank of Venezuela, Anuarios de Cuentas Nacionales, 1972-1980.

Table 5.4

Venezuelan Public Sector Expenditures, 1960-1975
(Percent of Distribution)

| | 1960 | 1970 | 1975 |
|---|---|---|---|
| Central Government | 70 | 48 | 28 |
| State Enterprises | 23 | 40 | 52 |
| Decentralized Entities | 7 | 12 | 8 |
| Special Funds | - | - | 12 |
| Total | 100 | 100 | 100 |

Source: M. Garcia Araujo, "Elementos para un Analisis de la Reforma Tributaria," Resume, No. 180, (April 1977), p. 55.

Table 5.5

Venezuelan State Enterprises, 1960-1975
(Total Annual Expenditures)

| Year | Bs. Millions | Index 1960 = 100 | Index 1970 = 100 |
|---|---|---|---|
| 1960 | 1,758 | 100 | |
| 1966 | 4,560 | 259 | |
| 1970 | 6,963 | 396 | 100 |
| 1974 | 25,992 | 1478 | 373 |
| 1975 | 36,424 | 2072 | 523 |

Does not include the Venezuelan Investment Fund or other sectoral development funds.

Source: M. Garcia Araujo, "Elementos para un Analisis de la Reforma Tributaria," Resumen, No. 180, April 1977, p. 54.

commercial-transnational sector is in a weaker position today than it was in the early 1970s.[48] This is due to both the limited foreign investment during the past two decades and the continued development of local capital accumulation, especially state capital.[49] Figure 5.5 depicts the rise of manufactured output during this period while Figure 5.6 outlines the distribution of employment among the various sectors of the Venezuelan economy in 1990.

The percentage of the nation's capital stock under Venezuelan ownership (both public and private) is actually greater today than it was in the early 1970s.[50] While foreign investment entered Venezuela at an annual rate of $100-200 million in late 1960s and early 1970s, it slumped to $50 million per year by 1980.[51] This was due at least in

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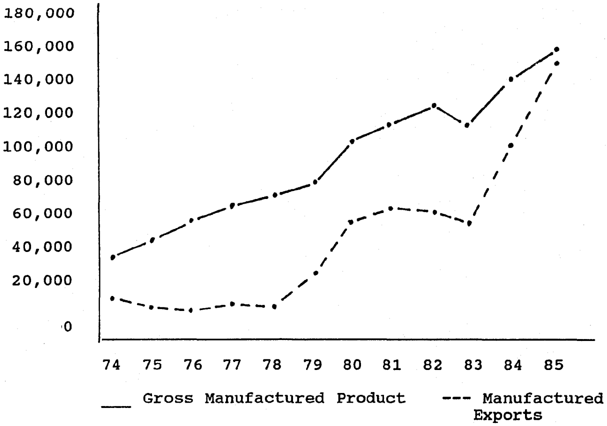
[48]Emeterio Gomez, "Las Transformaciones Ocurridas en la Economia Venezolana a Partir de 1983," in La Evolucion del Sector Privada en el Periodo 1983-1988 y Sus Perspectivas. 1988, pp. 60-134; and Moises Naim, "El Crecimiento de las Empresas Privades Venezolanas: Mucha Diversificacion, Poco Organizacion," in Moises Naim, (ed.) Las Empresas Venezolanas: Su Gerencia. Second Edition, (Caracas: Instituto de Estudios Superiores de Administracion, 1989), pp. 17-56.

[49]Associacion Pro-Venezuela, Las Inversiones Extranjeras en Venezuela. Caracas, 1973.

[50]FEDECAMARAS, La Inversion Publica y Privada 1970-1989. Serie Temas Economicos. Unidad de Analisis Economico, January 1991.

[51]Moreover, most of this investment consisted of bolivar reinvestments made by foreign corporations already operating in Venezuela, as opposed to fresh inflows of new capital. A substantial share of new foreign capital would, in all likelihood, not have been invested in Venezuela were it not




<u>Figure 5.5 Venezuelan Manufactured Production, 1974-1985</u> (Millions of Bolivars) Source: Office for the Promotion of Exports, "Alcance de la Politica de Promocion de Exportaciones en Venezuela," (February 1989), p. 18.

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for "special arrangements" which the government instituted in order to ensure foreign participation in some of its projects.

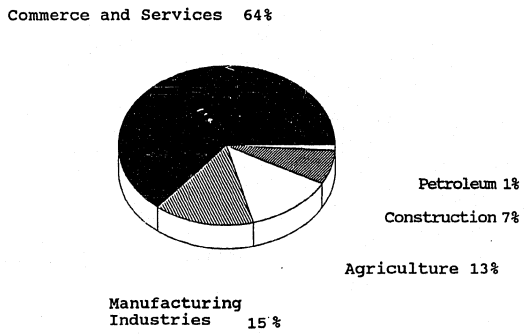


Figure 5.6 Distribution of Employment in Venezuela, 1990. Source: Central Office of Statistics and Information, Anuario Estadistico de Venezuela 1990, November 1991.

part to strict implementation of Decision 24 of the Andean Pact.[52] Foreign investment was also relatively limited during the 1980s. Although the Lusinchi administration liberalized the nation's investment regimes it was unable to attract much additional foreign investment. The debt-equity program, adopted in 1987, for example, encouraged only minimal foreign capital investment.[53]

At the same time, Venezuela's domestic production grew at an average of 3.9 percent between 1975 and 1988, due primarily to large public investments. In addition, the largest sectors of the nation's economy, petroleum and iron ore, were nationalized in the mid-1970s. Domestically-owned corporations producing non-traditional exports also expanded during this period. While non-traditional exports constituted

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[52]This argument is advanced by Jaime Michelsen Uribe, "La Decision 24 y el Mercado de Capitales," in Decision 24: Mito o Realidad. Serie Grupo Andino en el Debate, (Lima: Centro de Documentacion Informacion Andina, 1981), pp. 63-69; Alba Ivonne Leon de Labarca. "El Acuerdo Sub-regional Andino y el Tratamiento a los Capitales Extranjeros," in Decision 24: Mito o Realidad, 1981, op. cit., pp. 79-83; and Robert Grosse, "The Andean Foreign Investment Code's Impact on Multinational Enterprises," Journal of Internacional Business Studies. Vol. 14, No. 3, (Winter 1983), pp. 121-133.

[53]The debt-equity program was limited in a number of respects. First it covered only a small number of sectors: agro-industry, construction, tourism, transportation, aluminum, biotechnology, chemicals and capital goods. Second, the government decreed that the preferential dollar exchange rate of Bs 14.50/$1, not the free market rate, would apply to debt equity swaps. Third, Venezuela's sovereign debt was being quoted at seventy percent of its face value on the secondary market. The thirty percent discount was not sufficiently attractive, especially considering the limits on where debt could be invested.

less than four percent of total exports in the late 1970s, this figure grew to twenty-two percent by the end of 1989.[54]

In short, the domestic structures perspective is weak on a number of counts. This argument is unable to account for the protectionist policies of the first Perez administration given the nation's relatively weak private sector and its close links with the commercial-transnational sector. Moreover, these restrictive trade and investment policies advanced state rather than private capital interests. This perspective is also unable to account for the liberal policies of the Perez administration today given the absence of a noticeable shift in power toward the commercial-transnational sector.

The Plantation-Export Economy of Jamaica

Close analysis of the Jamaican case also calls into question the explanatory power of a domestic structures argument. Jamaica's economy was originally structured to meet British rather than local needs. It provided agricultural and raw material products to the British market in exchange for manufactured goods. Over time, small landowners were

[54]The top industries were chemicals and petrochemical products, food, beverages and tobacco, metal products and machinery equipments, and basic metal industries. Together they accounted for twenty-four percent of non-petroleum output in 1988. Other major industries were textiles, apparel and leather, paper and paper products, and non-metallic mineral products.

gradually moved off the most fertile lands by English and American agri-businesses. British sugar companies, for example, monopolized huge tracts of Jamaican farmland until the 1950s and the U.S.-based United Fruit Company became the nation's largest landowner.[55] Foreign corporations also controlled the marketing of all agricultural exports.

The 1942 discovery of bauxite led to dramatic changes in the island's economy. The commercial exploitation of bauxite began in 1952 and soon replaced sugar as the nation's chief export. By 1968 the bauxite/aluminum sector accounted for almost half of total exports and ten percent of gross domestic product.[56] Over time, foreign interests gained almost complete control over the bauxite industry.[57]

For the most part, the Jamaican economy remained an export enclave economy with few internal linkages. Most of the wealth was concentrated in the hands of a relatively small landowning class and the foreign corporations. The domestic

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[55]Carl Stone, Class, State and Democracy in Jamaica. (New York: Praeger, 1986), p. 20.

[56]Anders Danielson, Aspects of Industrialization in Jamaica. (Lund: University of Lund, Department of Economics, Minor Field Studies Series, No. 2, 1986), p. 4.

[57]Between 1962 and 1973 total foreign investment in bauxite was $629.4 million, eighty percent of which came from the United States. The aluminum companies also gained control over 142,000 acres of agricultural land. Evelyne Huber Stephens and John D. Stephens, Democratic Socialism in Jamaica: The Political Movement and Social Transformation in Dependent Capitalism. (Princeton: Princeton University Press, 1986), p. 26.

elite preferred to accrue rapid profits from the distribution of imported commodities over investing in riskier area of manufacturing industry.[58] This system worked fairly smoothly since the agricultural and mineral sectors earned enough foreign exchange to cover the nation's import requirements.[59] By the end of the 1960s Jamaica imported all of its energy and capital goods, most industrial raw materials and semi-finished goods, and half of its food.

State policies generally reflected the interests of the plantation and commercial elite and the foreign corporations. The Jamaican government, which gained local self-rule in 1944, maintained an open door policy throughout much of the post-war period with few restrictions placed on trade and investment. The Jamaican Industrial Development Corporation (JIDC) was set up in 1952 specifically to attract foreign investment by channelling technical and financial assistance to private investors.[60] The Export Industries Encouragement Law and the Industry Incentives Law, both passed in 1956, allowed for free

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[58]Owen Jefferson The Post-War Economic Development of Jamaica. (Kingston: University of the West Indies, Institute of Social and Economic Research, 1972), p. 127.

[59]Jamaica's exports were heavily concentrated on a couple partners (the United States and Britain) and products (bauxite, sugar, bananas, citrus, pimento, cocoa, coffee and ginger).

[60]Peter Phillips, The Political-Economy of Jamaican Foreign Relations: A Study of the Orientations of National Capitalists to Foreign Relations. Masters Thesis, Kingston: University of the West Indies, 1977, p. 67.

profit repatriation, duty free imports of raw materials and machinery, exemption from taxes, generous depreciation allowances, and loan guarantees for foreign firms. The government also provided the corporations with land at a reduced cost, port facilities, roads, and rail networks. The "industrialization by invitation" strategy was modeled after the United States"Operation Bootstrap" program developed in Puerto Rico between 1950 and 1952.

Import-Substitution Industrialization

Despite overwhelming dominance of the Jamaican economy by the commercial-transnational sector, local manufacturing industries, although relatively weak, did eventually emerge. In the early 1930s the collapse of the largely self-sufficient plantation estates increased demand for the circulation of commodities. The accumulation of surplus by urban based merchants set the stage for the development of small and medium size businesses.[61] This process was accelerated by the temporary interruption of imports from abroad during the Second World War.

Moreover, foreign capital inflows during the 1950s and 1960s, especially in the mining sector, enlarged the revenue base of the Jamaican economy and provided an impetus for some

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[61]This was especially apparent with respect to production of furniture, metal products, chemicals, cement, food processing, garments, and footwear.

construction and manufacturing activity.[62] Table 5.6 outlines changes in the percentage distribution of GDP among the various sectors of the economy during this period.

The economic transformation of Jamaica also led to a restructuring of the nation's political order. As noted above, political power had traditionally been limited to the landowning and commercial groups. However, these groups soon found their position of preeminence challenged. As local industry expanded, new urban groups began to push for political reforms. Economic power shifted from the rural plantation areas to urban centers and especially to the metropolitan areas of Kingston, St. Andrew and urban St. Catherine.

Possibly the most significant development during this period was the establishment of the People's National Party (PNP). Founded in the aftermath of the 1938 labor protests, the PNP's base of support was primarily among the new urban groups, small businesspeople and professionals, and the middle

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[62]Danielson, 1986, op. cit, p. 4. Between 1950 and 1968 Jamaica's real gross domestic product increased from J$171 to J$549, an average annual increase of 6.7 percent. Manufacturing output grew at an even more rapid rate. Between these same years the percentage contribution of manufacturing to total output increased on average 10.5 percent. (Jefferson, 1972, op. cit, p. 49). There were 115 new factories established in construction, light manufacturing, transport, and utilities. (Stone, 1986, op. cit., p. 80).

Table 5.6

Jamaican Distribution of Industries, 1950-1970
(% Distribution of GDP)

| | 1950 | 1960 | 1970 |
|---|---|---|---|
| Agriculture, Forestry, Fishing | 30.8 | 12.9 | 6.7 |
| Mining, Quarrying | - | 9.3 | 12.6 |
| Manufacture | 11.3 | 12.8 | 15.7 |
| Electricity, Water | 1.1 | 1.0 | 1.0 |
| Construction, Installation | 7.6 | 11.3 | 13.3 |
| Distribution | 15.1 | 17.2 | 19.0 |
| Transport, Storage, Communication | 7.1 | 6.5 | 5.5 |
| Finance, Insurance | 2.6 | 6.2 | 3.8 |
| Real Estate, Business Services | 5.9 | 3.2 | 9.4 |
| Producers of Govt. Services | 6.1 | 6.8 | 7.8 |
| Misc. Services | 12.4 | 12.9 | 7.2 |
| Total | 100 | 100 | 100 |

Sources: Central Planning Unit, Economic Survey, 1960, p. 3; Department of Statistics, National Income and Product, 1980, p. 19; Abstract of Statistics, 1950-1968; National Planning Agency, Economic and Social Survey, 1970-1980.

class.[63] The PNP also had ties to the urban working class through affiliation with one of the nation's largest labor unions, the Trade Union Congress (TUC).[64]

The PNP appealed to the protectionist instincts of these new urban groups. It adopted a social democratic and nationalist platform modeled after the Fabian ideas of the British labor party. The mission of the Jamaican Industrial Development Corporation (JIDC), for example, was redirected toward developing manufacturing industry. It was charged with developing financial and technical services for small industry and providing factory space at moderate rentals with access to all utilities.[65] The Jamaican Development Bank (JDB) was also established to provide financial support for local businesses. Lastly, a Central Planning Unit was developed to provide a framework for medium and short-term planning to guide the private sector.

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[63]Historically, the Jamaican Labor Party (JLP) has been closely associated with the traditional elite - those more involved in plantation agriculture, commerce and real estate. The JLP has also had ties to the peasant sector, however, through its trade union affiliate, the Bustamente Industrial Trade Union (BITU).

[64]There was a split between PNP and TUC, however, in 1952. Many progressive organizers and educators in the TUC were expelled from the PNP and the TUC was replaced by the National Workers Union (NWU) which favored a more moderate policy.

[65]JIDC's initial role in the field of finance was later transferred to the Jamaican Development Bank (JDB) and its role in infrastructural development assumed by the Urban Development Corporation, (UDC).

The economically nationalist policies of the first Manley administration are frequently attributed to the emergence of domestic capital with interests distinct from those of the foreign sector. Restrictions on foreign trade and investment, and the assertion of greater national control over the bauxite industry, were thought to represent the interests of local capital.[66] In addition, empirical studies found considerable support among the business community for the Jamaicanization program.[67]

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[66]This perspective is reflected in the writings of Fitzroy Ambursley, "Jamaica: The Demise of Democratic Socialism," New Left Review. No. 128, (July-August 1981), pp. 76-87; George Beckford and Michael Witter, Small Garden, Bitter Weed: Struggle and Change in Jamaica. (London: Zed, 1980); , Bernal, 1984, op. cit.; Michael Kaufman, Jamaica Under Manley: Dilemmas of Socialism and Democracy, (London: Zed, 1985); Arthur Lewin, "The Fall of Michael Manley: A Case Study of the Failure of Reform Socialism," Monthly Review, Vol. 33, No. 9, (February 1982), pp. 49-60; Phillips, 1977, op. cit.; and S. Reid, "An Introductory Approach to the Concentration of Power in the Jamaican Corporate Economy and Notes on its Origins," in Carl Stone and Adlith Brown, (ed.), Essays on Power and Change in Jamaica. (Kingston: Kingston Publishing Company, 1977), pp. 15-44. Ambursley describes the PNP as a "bourgeois nationalist party with a Fabian facade." Lewin also discounts the socialist rhetoric of the PNP arguing that Manley simply wanted to place the operations of foreign enterprises in the hands of wealthy nationals. For Phillips the PNP agenda reflected the desire of Jamaican capitalists to impose greater restrictions upon foreign operations in the national economy.

[67]See for example Stephens and Stephens, 1986, op. cit., p. 68.

Empirical Critique

Close analysis of the class nature of Jamaican society and the political content of the PNP policies, however, points to a number of important weaknesses in the domestic structures perspective. To begin, domestic capital never really achieved a position of autonomy vis a vis the foreign sector. Colonial domination of the Jamaican economy, which continued until the early 1960s, had a debilitating effect on industrial growth in Jamaica. The British were especially wary of any industrial development which might compete with British exports to the Jamaican market. As a result, domestic entrepreneurs with access to capital often had few alternatives but to enter the distributive trades through import/export agencies and commission houses.[68] The commercial sector far surpassed domestic manufacturing throughout the colonial period. Local capital remained extremely weak during the post-colonial period and generally favored short-term commercial ventures rather than longer-term productive enterprises. The small size of the Jamaican economy, and limited purchasing power of its population, represented a further constraint on industrial development.[69]

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[68]Carl Stone, "Running Out of Options in Jamaica: Seaga and Manley Compared," Caribbean Review, Vol. 15, No. 3, (Winter 1987), pp. 10-12, 29-32.

[69]Richard Bernal, "Economic Growth and External Debt in Jamaica," in Antonio Jorge, Jorge Salazar-Carrillo, and Rene Higonnet (eds.) External Debt and Economic Growth in Latin America, (New York: Pergamon, 1982), p. 1.

Given these structural impediments, those manufacturing enterprises which did emerge were generally characterized by low domestic value added and high dependence on inputs from abroad.[70] As Table 5.7 indicates, the nation's import dependence remained high throughout the 1960s, reaching almost half of total gross domestic product by the end of the decade.[71] The Jamaican economy actually came to depend even more on trade than it did during the colonial period. The overall import content of production was sixty percent[72] and the import coefficient, (imports as a percentage of total supplies), rose from 24.5 percent in 1950 to 34.1 percent in 1968.[73] By 1978, the ratio of imported raw material to gross value of output in the manufacturing sector was forty-three percent.[74] The high import content of production, and the large share of output destined for export, highlighted the lack of inter-sectoral linkages in the domestic economy. Expansion in one of the sectors of the economy had little

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[70]Stephens and Stephens, 1986, op. cit., p. 29.

[71]Stone, 1986, op. cit., p. 27.

[72]Bernal, 1982, op. cit., p. 1. This was especially true in capital intensive sectors such as the bauxite-alumina industry, but even in the labor-intensive service sectors the import content was over forty percent.

[73]Jefferson, 1972, op. cit., p. 185.

[74]Mahmood Ali Ayub, Made in Jamaica: The Development of the Manufacturing Sector. World Bank Staff Occasional Papers #31, (Baltimore: Johns Hopkins University Press, 1981), p. 60-61. Also see Bernal, 1982A, op. cit. p. 1.

Table 5.7

Jamaican Manufactured Goods Imports, 1950-1981
(Millions of J$)

| Year | (1) Domestic Production | (2) Imports | (3) Total Supply 1 + 2 | (4) Import Ratio 2/3 x 100 |
|---|---|---|---|---|
| 1950 | 15.8 | 18.8 | 34.6 | 54.3 |
| 1956 | 41.4 | 39.6 | 81.0 | 48.9 |
| 1962 | 65.7 | 53.2 | 118.9 | 44.7 |
| 1968 | 115.3 | 107.7 | 223.0 | 48.2 |
| 1971 | 206.5 | 108.2 | 314.7 | 34.5 |
| 1972 | 241.3 | 112.7 | 354.0 | 31.8 |
| 1973 | 293.6 | 140.4 | 434.0 | 32.3 |
| 1974 | 386.5 | 180.6 | 567.1 | 31.8 |
| 1975 | 442.7 | 200.0 | 642.7 | 31.1 |
| 1976 | 508.0 | 153.0 | 661.0 | 23.1 |
| 1977 | 563.9 | 150.3 | 661.0 | 21.0 |
| 1978 | 636.7 | 271.7 | 908.4 | 29.9 |
| 1979 | 691.8 | 321.7 | 1013.5 | 31.7 |
| 1980 | 762.2 | 287.8 | 1050.0 | 27.4 |
| 1981 | 812.0 | 388.9 | 1200.0 | 32.4 |

Sources: Department of Statistics, Abstract of Statistics, 1950-1968; Statistical Yearbook of Jamaica 1975, 1982; National Planning Agency, Economic and Social Survey, 1970-1983; Anders Danielson, Aspects of Industrialization in Jamaica. (Lund: University of Lund. Department of Economics, Minor Field Studies Series, No. 2, 1986), pp. 30.

effect on other sectors.[75]

In addition, it is important to recognize the close ties which existed between the incipient manufacturing sector and the commercial elite. In most cases, the commercial elite constituted the primary investors in domestic industry. The Jamaican economy has long been dominated by a handful of wealthy families which trace their social origins back to the nineteenth century merchant class. They were able to use merchant capital as the base from which to create large and diverse family enterprises.[76] With the transition from a plantation-dominated economy to a more diversified urban-centered economy, the merchant class moved into the manufacturing sector.[77] These powerful merchant-manufacturing family enterprises continued to dominate the local economy.[78] As Stephens and Stephens point out, the Jamaican elite is heavily interlocked in both economic and

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[75]Jefferson, 1972, op. cit.; Bernal, 1982A, op. cit. p. 1.

[76]Stone, 1984, op. cit., p. 38.

[77]In an unpublished article, ("Power and Policy-Making in Jamaica,"), Carl Stone argues that these powerful business families did not develop out of the planter class but emerged from the more enterprising merchant families who controlled the colonial distributive trade through import/export agencies and commission houses.

[78]The commercial elite was comprised of twenty-one powerful family groupings and focused on just five inter-related groups, the Ashenheims, Desnoes-Geddes, Harts, Henriques, and Matalons, who between them held more than one-third of the available directorships in the corporate economy.

kinship terms. The larger concerns include holdings in commerce, manufacturing, tourism, and agriculture.[79]

The role of foreign capital in domestic manufacturing should also be noted.[80] Jamaica's "industrialization by invitation" program attracted considerable North American capital. As outlined above, this program offered a wide range of tax concessions and other incentives to foreign firms. The wealthiest families in Jamaica have traditionally maintained a close working relationship with foreign business interests. This can be traced to their early beginnings as commercial importers and commission agents of foreign companies.

Investment inflows, primarily from the United States, have been behind the major growth phases of the Jamaican economy in the past. Between 1953 and 1973, for example, over $710.3 million of foreign investment came into the country.[81] This constituted about thirty-two percent of total investment on average, with a peak of forty-five percent in 1972.[82]

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[79]Stephens and Stephens, 1986, op. cit., p. 301.

[80]Phillips, 1977, op. cit., p. 65. Funds from the British Colonial Development and Welfare Act of 1940 provided the infrastructure for subsequent inflows of foreign capital.

[81]Jamaica National Investment Promotion Limited, (JNIP), Investment in Jamaica, Kingston, July 1981.

[82]The estimated net inflow of foreign capital during the years 1951 to 1968 was $431.6 million, representing about thirty-five percent of net investment. (Bernal, 1984A, op. cit., p. 58).

This is reflected in Table 5.8. While over ninety-three percent of this investment was in the bauxite/alumina sector,[83] a majority share of the financial system (commercial banks and insurance companies) was also controlled by subsidiaries of American and Canadian firms. Moreover, the nation's public utilities, with the exception of water, were owned by foreign, mainly British interests.[84] (Data on foreign ownership in each sector of the local economy is provided in Table 5.9). When Manley took office in 1972 the manufacturing sector was dominated by one hundred and seventy-nine foreign enterprises which controlled ninety percent of total output and contributed about thirty percent of total investment.[85]

In short, despite some industrial diversification, post-war developments tended to reinforce the basic import-export

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[83]Carl Stone, "Race and Economic Power in Jamaica: Toward the Creation of a Black Bourgeoisie," Caribbean Review. Vol. 16, No. 1, (Spring 1988), pp. 10-14, 31-34. Also, Phillips, 1977, op. cit.

[84]Stephens and Stephens, 1986, op. cit., p. 28

[85]Stephens and Stephens, 1986, op. cit. p. 38. In addition, a good part of the financial system (commercial banks and insurance companies) were also controlled by subsidiaries of American, British, and Canadian firms. The island's leading estates were owned by a large British company, the bauxite industry was in the hands of four American and one Canadian company, a large part of the communication network and even a number of basic utilities (including the electricity and telephone services) were also foreign owned. (Stephens and Stephens, 1986, op. cit., p. 28). Many of these operations simply assembled products from imported components and then shipped the finished goods to markets around the world.

Table 5.8

Direct Foreign Investment in Jamaica, 1958-1972
(Millions of J$)

| Year | Private Capital Inflow | Foreign Investment as a % of Total Investment |
|---|---|---|
| 1958 | 20.8 | 29 |
| 1959 | 14.1 | 27 |
| 1960 | 8.3 | 16 |
| 1961 | 8.2 | 6 |
| 1962 | 7.2 | 6 |
| 1963 | - | -7 |
| 1964 | 3.2 | 25 |
| 1965 | 10.2 | 17 |
| 1966 | 46.2 | 20 |
| 1967 | 80.2 | 27 |
| 1968 | 107.6 | 32 |
| 1969 | 90.2 | 35 |
| 1970 | 135.3 | 28 |
| 1971 | 108.1 | 43 |
| 1972 | 41.2 | 45 |

Source: National Planning Agency, Economic and Social Survey, 1973.

Table 5.9

Foreign Ownership in Jamaica, 1969
(% of Total Ownership)

| Industry | % |
|---|---|
| Mining | 100 |
| Manufacturing | 75 |
| Financial Institutions | 66 |
| Transportation | 66 |
| Communications | 50+ |
| Storage | 50+ |
| Tourism | 40 |

Sources: Bank of Jamaica, Balance of Payments of Jamaica, 1964-1970, 1971; National Planning Agency, Economic and Social Survey, 1972.

orientation of the Jamaican economy. Almost all of the inputs, raw materials, financial services and even the skilled manpower were imported for the mining, manufacturing and service industries while all of the bauxite and alumina and much of the manufacturing output was exported.

Careful analysis of PNP policies during the 1970s also casts doubt on the domestic structures perspective. These policies were, for the most part, designed to strengthen and expand the public sector rather than advance the interests of private businesses. "The Principles and Objectives" of the PNP called for the state to play a leading role in the development of the economy.[86] The state was expected to play a central role in regulating private capital in the interest of economic growth and development. The state was also charged with transforming the pattern of ownership and control of the means of production. This led to an enlarged policy role for the state in the production and distribution of goods and services and in the regulation of the economy.[87]

Moreover, the state was to own and control the "commanding heights" of the economy, namely mineral resources (bauxite) strategic industries (alumina, cement, sugar), public utilities, financial institutions and foreign trade.

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[86]People's National Party, Principles and Objectives of the People's National Party, February 1979.

[87]Stone, "Power and Policy-Making in Jamaica," op. cit., p. 51.

By 1979 there were one hundred and eighty-five public enterprises with total assets of approximately J$4,400 million. By the end of Manley's term, the state owned all the public utilities, the largest commercial bank, fifty-one percent of the bauxite mining companies, seventy-five percent of sugar output, forty-eight percent of the capacity of the hotel industry. In addition, the State Trading Corporation had been established to control imports and exports. The increased role of the state was possibly most evident in the bauxite sector. Both the bauxite levy and nationalizations increased state rather than private sector control over this industry.

Additional evidence that PNP policies promoted state rather than private sector interests is reflected by the fact that the majority of businesspeople eventually came to oppose the PNP government. While the private sector supported some of the early measures, such as the government's bauxite policy, it ultimately withdrew its support in response to the increasing state intervention in the economy.[88] The perceived loss of influence over economic policy led to the

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[88]Stone, "Power and Policy-Making in Jamaica," op. cit, p. 66. The private sector took a number of actions to derail the PNP reform program, exporting capital abroad, closing down enterprises, evading tax payments, and reducing their investments.

creation of the Private Sector Organization of Jamaica (PSOJ).[89] Moreover, both the Jamaican Manufacturers Association (JMA) and the Jamaican Chamber of Commerce (JCC) came out in opposition to the PNP reform program.[90]

A domestic structures perspective is also unable to account for the adoption of a neo-liberal agenda today. Trade and investment liberalization should be associated with a shift in the domestic distribution of power in favor of the commercial-export sectors. Yet there is little evidence of such a shift. As noted previously, foreign investment flowed into Jamaica at relatively high levels during the 1950s and 1960s. This continued during the early 1970s. In 1972 and 1973, for example, $243 million of private foreign capital was invested in the country. However, foreign capital inflows have declined steadily since this time. The decline in foreign investment during the 1970s is depicted in <u>Figure 5.7</u>. As the Manley government moved to exert greater control over foreign corporations, many of these firms simply relocated their production elsewhere.

The general instability of the 1970s further discouraged foreign investment.[91] By 1974 new foreign investment dropped

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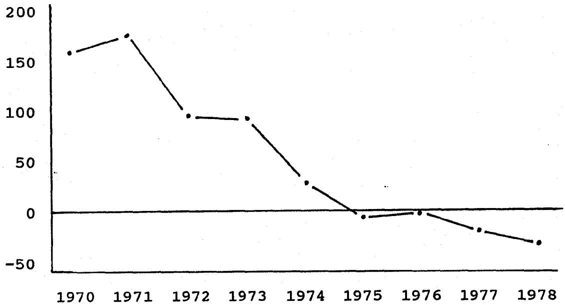
[89]The PSOJ's goal was to bring the various business groups together into a large coalition to defend private sector interests. The organization frequently challenged the socialist and statist nature of the government's policies.

[90]Stephens and Stephens, 1986, op. cit., p. 301.

[91]Danielson, 1986, op. cit., p. 36.




<u>Figure 5.7</u> <u>Foreign Investment in Jamaica, 1970-1978</u>. (Millions of U.S.$) Sources: Bank of Jamaica, <u>Report and Statement of Accounts</u>, 1978; International Bank for Reconstruction and Development, <u>World Tables</u>, Second Edition, 1980, p. 314.

to just $41 million and, as Figure 5.7 demonstrates, Jamaica actually became a net exporter of capital between 1975 and 1979. A combined outflow of various types of private capital during this period averaged $13 million per year. Moreover, despite increased incentives for foreign investors during the 1980s, capital inflows remained negligible. Jamaica's reputation for political instability, bureaucratic inefficiency, and societal violence continued well into the 1980s. This was coupled with a general disinterest on the part of transnational firms to invest in new activity abroad at a time when global interest rates were at record levels.

Lastly, the expansion of the state during the 1970s, especially through its nationalization of basic industries, has led to greater national control over the economy today than in the early 1970s. Despite its campaign promises and free market ideology the JLP government during the 1980s did not radically reverse this statist model.

In short, a structural perspective which links foreign economic policy during the two Manley administrations with the relative strength of foreign and domestic capital is weak in a number of respects. This argument is unable to fully account for the economically nationalist policies during the first administration given the nation's relatively weak private sector and its close ties with the commercial-transnational sector. Moreover, the restrictive trade and investment policies of the administration advanced state rather than private sector interests. This perspective is also unable to account for the liberal policies of the Manley administration today given the absence of a noticeable shift toward the commercial-transnational sector.

Societal Origins of State Policy

Domestic structures approaches, which stress the relative balance of power between old and new capital, provide a possible explanation for foreign economic policy choice in Venezuela and Jamaica. The agro-export oligarchy with close ties to the transnational corporations is distinguished from the newer industrial or manufacturing sectors producing for the domestic market and independent of foreign capital. State policies are expected to reflect whichever faction of capital is dominant at any one time. While the commercial sectors would generally be expected to favor the free movement of goods and capital, local industrialists would support protectionist measures and greater restrictions on foreign corporations.

Close analysis of the Venezuelan and Jamaican cases provides little support for this perspective. Its hard to link economically nationalist policies with the emergence of local capital or the shift toward liberal policies with the reemergence of a strong commercial-transnational sector. During the 1970s, both nations were characterized by a relatively weak domestic manufacturing sector with strong ties to the traditional commercial oligarchy and transnational capital. Moreover, the economically nationalist policies pursued during the 1970s tended to support state rather than private sector interests.

A domestic structures perspective is also unable to adequately explain the shift to a liberal posture today without a noticeable change in internal class relations. In fact, given the expansion of the state in both nations during the past two decades and the simultaneous decline in foreign investment, there is greater national control of the economy today than there was in the early 1970s. As such, the neo-liberal agenda of the Perez and Manley administrations today would not have been predicted by simply focusing on each nation's domestic structures.

Chapters four and five have pointed to important weaknesses in purely structural explanations for economic policy choice. The next chapter considers the role of the state and state decision-makers. Recognizing the independent role of the state must be a central component of foreign policy analysis. In addition, it is important to consider the policy-making role of individual decision-makers and the degree to which their beliefs, perceptions, and motivations condition policy choice.

## Chapter Six

## STATE IMPERATIVES AND DECISION-MAKER BELIEFS

Structural approaches, which consider the opportunities and constraints of the foreign and domestic environments, are frequently advanced to explain economic policy choice in Venezuela and Jamaica. The nationalist trade and investment policies of the 1970s and liberal agenda of today are thought to reflect asymmetries in the distribution of power and wealth internationally or among various societal groups. Although these perspectives highlight constraints on state policy, they are not able to fully account for the continuation of protectionist measures in the 1970s in the face of deteriorating external accounts nor the liberalization of each nations trade and investment regimes today without a noticeable change in internal class alignments.

Structural perspectives are weak in two important respects. Primarily, these perspectives tend to overlook the often independent and autonomous role of the state. This is especially apparent in the Venezuelan and Jamaican cases where the state has long played a key role in the production and distribution of resources. Secondly, these perspectives fail to consider the role played by state decision-makers. While environmental forces clearly condition state policies, these forces are only important to the extent that they are correctly perceived and interpreted by those individuals in positions of state power. Analysis of decision-maker perceptions of their environment, and how these perceptions have changed overtime, must be included as an intervening or contributing variable in the study of economic policy-making.

This chapter focuses on both the state and state decision-makers in Venezuela and Jamaica. I begin with an analysis of the political system in each nation focusing on the mechanisms through which state power is structured and reproduced. I then turn to an analysis of the individual decision-makers themselves, Carlos Andres Perez and Michael Manley, and consider the subjective nature of policy choice in each nation.

State Structures and Individual Choice

In recent years the state has emerged as the central actor in the production and distribution of goods and services in Latin America and the Caribbean. The Venezuelan and Jamaican cases provide rather prominent examples of the entrepreneurial or interventionary state. In Venezuela, the state represents by far the most significant economic actor and, while this is less apparent in Jamaica, the state has played a major role in the regulation of the economy.

Both nations are also characterized by patronage or clientelist political systems: most people relate to the government as a client of some personalistic leader or patron.

Venezuela's political order, for example, has long been based on the distribution of proceeds from its petroleum wealth. Although material resources are more limited in Jamaica, clientelism is, in many respects, an even stronger feature of its political system.

It is also important to consider the subjective role of Carlos Andres Perez and Michael Manley. As noted in chapter two, this project begins with the assumption that political leaders are primarily concerned with maintaining state power with policies reflecting which measures are perceived as necessary to reproduce the existing political order. In state capitalist or clientelist systems, such as Venezuela and Jamaica, this generally means policies which maximize state control over societal resources. Decision-makers must also consider the relative viability of alternative policies: which policies can be sustained overtime given the constraints of their foreign and domestic environments.

State Autonomy and Presidentialism in Venezuela

Venezuela is often considered a prime example of the entrepreneurial state. Since the early part of the twentieth century, the state has played a major role in the production and distribution of goods and services. For the most part, this is due to the dominance of the petroleum sector in the Venezuelan economy. As the state assumed an increasingly greater control over this industry, it became the nation's preeminent economic actor. This process culminated with the nationalization of the petroleum industry in 1975.[1] While the two major parties, the social democratic Accion Democratica and the social christian COPEI, have nominal differences, they both advocate a mixed economy with a large public sector, protected market economy, and private sector largely promoted by the state.[2]

Venezuelan politics is also characterized by a well-developed system of patron-client relations.[3] Each party presides over extensive patronage networks and are the primary channels of political access. Popular support is maintained through their capacity to deliver services, goods, credible

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[1]A number of scholars have examined Venezuela's system of state capitalism. See especially Hector Valecillos, "Problemas y Posibilidades de la Politica Social en Condiciones de 'Reajuste Estructural' de la Economia," Paper presented at CENDES Conference, Caracas, March 8-9, 1990; Max Flores Diaz, "El Capitalismo en la Venezuela Actual," Economia y Ciencias Sociales. Ano 18, No. 1, (January-March 1979), pp. 8-24; Purroy, 1986, op cit; Equipo Proceso Politico, CAP 5 Anos: Un Juicio Critico. (Caracas: Editorial Ateneo de Caracas, 1978); Sergio Bitar and Eduardo Troncoso, El Desafio Industrial de Venezuela. (Caracas: Editorial Pomaire, 1983).

[2]Diego Bautista Urbanega, "Politics and Society in Venezuela," in Colin Clarke, (ed.) Society and Politics in the Caribbean, (New York: St. Martin's Press, 1991), p. 175.

[3]This analysis draws upon earlier studies of clientelism in Venezuelan. See especially Talton Ray, The Politics of the Barrios of Venezuela, (Berkeley: University of California, 1969); "Los Partidos Politicas en Venezuela," Curso de Formacion Socio-Politica, No. 16, (Caracas: Centro Gumilla, 1988); Marcel Granier and Jose Antonio Gil Yepes, "El Sistema Politica Venezolano: Las Reglas de Organizacion Politica y los Retos del Sistema," in Mas y Mejor Democracia, pp. 27-43.

promises, and collective identification to the poor and working class.[4] The parties compete for control over national resources which are then disbursed to their supporters at each level of the party apparatus. In fact, with party patronage such a dominant feature of Venezuelan politics, the system is sometimes characterized as "partiocracy" or party domination of civil society.[5] Loyalty is thus maintained through individually-apportioned material concessions rather than through appeals to group interests. The vast majority of peasants, state bureaucrats, and industrial workers relate indirectly to the national politics as the client of some local personalistic leader or patron.

This system of political patronage is also a function of Venezuela's petroleum wealth. As noted in the preceding chapter, although this sector has long been the largest source of state revenue, it has not been able to absorb a large percentage of the work force or stimulate other sectors of the economy. As such, the government has traditionally had to contend with high levels of unemployment and poverty. Given relatively large oil revenues, the Venezuelan state has been able to absorb excess labor and maintain certain minimal

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[4]Urbanega, 1991, op. cit., p. 170.

[5]H. Njaim, et. al. El Sistema Politico Venezolano. (Caracas: Universidad Central de Venezuela, 1975).

living standards for the nation's poor.[6]

This system of political patronage is also an effective means of diffusing social tensions. Since access to resources is obtained through the parties, social discontent tends to be channelled against the party in office and not the political system itself. Anti-systemic forces are also contained in another respect: because the system encourages people to work within the parties it assures the inclusion of key sectors of society, while excluding the potentially destabilizing influence of groups whose interests are not filtered through the parties.

Presidentialism is also an important feature of Venezuela's political system. The president is granted extensive decision-making powers. Again, this can be traced back to the Spanish colonial system of centralized executive authority and to the nineteenth century where the local caudillo was the undisputed power broker who monopolized political influence and decision-making.[7] Over time, this view of political power became part of the nation's culture.

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[6]At least two-thirds of government revenues are generated by the petroleum sector and very little revenue is generated by personal income taxes. In some respects, the lack of personal income taxes has reinforced Venezuela's system of political patronage. Among the general populace government grants and services are thought of more as gifts rather than obligation. As such, there is a greater tolerance for a patronage-based system of revenue distribution.

[7]The legacy of caudillismo in contemporary Venezuelan politics is explored in "Los Partidos," 1988 op. cit., and Purroy, 1986, op. cit.

Venezuelans tend to give their loyalty to the person in command rather than to his institutional position.[8]

Venezuela's constitution is intentionally weighted toward a strong executive with the president having both administrative and legislative powers and supremacy over the judicial branch. The president can issue extraordinary financial and economic measures and is empowered to adopt all necessary regulations to bring these measures into effect. Such regulations are not subject to the approval of the legislature or judiciary. The president also enjoys almost complete autonomy in the conduct of foreign affairs.

Carlos Andres Perez

Carlos Andres Perez has never hesitated to exercise the full authority of the presidency. Born in the coffee-growing state of Tachira in 1922, Perez was politicized at an early age when the Gomez regime seized his family's coffee plantation. He first became active in politics as a teenager through association with the National Democratic Party (PDN), the forerunner of Accion Democratica, and remained politically active while studying law at the Central University.

[8]Granier and Yepes, op. cit. "Presidentialism" is reinforced by the centralized nature of the Venezuelan political system. Nearly all taxing and spending powers are in the hands of the central government. Other political subdivisions - states, districts, municipalities - are subordinate and dependent on the central government which exercises great control over state and local priorities.

In 1941 Perez helped found Accion Democratica and was appointed to its first National Executive Committee, (CEN). During the trienio government (1945-1948) he served as private secretary to Romulo Betancourt. He also served as Secretary General of AD in Tachira during this time period and as a deputy to its Legislative Assembly.

Following the 1948 military coup Perez was arrested and held for a year in a Caracas prison. He was then expelled from the country and set up residence in Bogota, Colombia. From Colombia, Perez played an active role in Venezuela's underground resistance movement. In 1949 he tried to secretly enter Venezuela but was arrested at the boarder and handed over to the Venezuelan military government. He was again imprisoned (for six months) and expelled from the country for a second time.

Perez lived in Cuba from 1951-1952 where he again served as Betancourt's personal secretary and as a member of the AD leadership. From there he took up residence in Costa Rica, where he formed part of the foreign command of AD and edited the newspaper "La Republica."

With the downfall of the Perez Jimenez dictatorship in 1958, Perez returned to Venezuela and was immediately elected to the National Congress. He served as Tachira's chief representative until 1964. He was also appointed Director General on the Ministry of Internal Relations in 1960 and Interior Minister in 1962.

As Interior Minister, Perez launched a campaign of repression against Venezuela's Communist Party (PCV), a campaign which greatly alienated the nation's left, including the Marxists within Accion Democratica. Over the next several years the left wing of AD broke from the party and Perez moved into a leadership role. He served as Political Secretary of CEN from 1962 to 1968. He was again elected Tachira's deputy to the National Congress in 1964 and headed AD's Congressional faction from 1964 to 1968. After AD lost the 1968 Presidential election, Perez was made the party's Secretary-General and charged with rebuilding the demoralized party. He was rewarded for his efforts by being chosen as the party's presidential candidate in 1973.

During Perez's first administration, AD enjoyed an absolute majority in both houses of Congress.[9] As such, Perez had a fairly free hand in the formulation of national policy. In fact, the Congress passed a law granting him extensive decree authority over the important areas of finance and economics.[10]

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[9]Perez captured 48.7 percent of the vote in the 1973 election, winning all but one state along with the Federal District and both federal territories. In addition AD won twenty-eight of the forty-nine Senate seats and 102 of the 203 seats in the Chamber of Deputies.

[10]Casanova (1986, op. cit.) contends that Perez enjoyed near complete autonomy in economic and foreign policy.

Economic Nationalist, 1974-1979

Perez's first term in office was characterized by economically nationalist policies. This section considers the individual role played by Perez in the initiation and maintenance of these policies. Perez considered protectionist trade and investment policies to be both necessary, in order to maintain state power, and viable, given the particular historical juncture of the period.

Again, it is important to recall the nature of Venezuelan politics. Since state power is reproduced through the development and maintenance of patronage networks, expanding state control over societal resources is imperative.[11] Although the country has abundant natural resources, the Venezuelan state has historically been unable to take full advantage of this wealth. For Perez, this was primarily a function of the way in which past governments had structured the nation's foreign economic relations.

Perez's views were clearly influenced by the radical social science scholarship of the period. He considered the liberal international trade and investment regimes to be almost exclusively in the interest of the industrialized nations and transnational capital. As a result, the only way

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[11]Allan Brewer Carias, Cambio Politico y Reforma del Estado en Venezuela, (Madrid: Editorial Tecnos, 1975); and David Hellinger, "Populism and Nationalism in Venezuela: New Perspectives on Accion Democratica," Latin American Perspectives. Vol. 11, No. 4, (Fall 1984), pp. 33-59.

to maximize resource flows to the state was to restrict foreign trade and investment and gain sovereignty over the local economy.

The public pronouncements which Perez made during this period clearly reflected this perspective. He frequently drew a sharp distinction between the "economic powers" and the developing nations.

> ... the absolute masters feel...that they do not hold any responsibility for their decisions ... on the world level, although they benefit by using the basic products and labor of the developing world, which is the cruel victim of this exploitation. This economic totalitarianism is only different from some of the other weapons of humanity in that it doesn't kill with canons or bombs, but with something more subtle and more wicked, hunger.[12]

For Perez, global product and capital markets were intentionally designed to benefit the Northern states at the South's expense.

> The structure and function of the international economy ... never resulted from the consideration of morality or justice. It was imposed ... by the economic totalitarianism of the industrialized nations, and accords with their particular interests, or better yet, the small group of powerful in these nations. The nations of the third world have been passive spectators and suffered the consequences without participating in the creation, management, or direction of the international economy, which could not function without primary materials or without the markets represented by the two-thirds of humanity who

[12]"Venezuela Contra el Totalitarismo Economico," Discurso en la Sede de la Organizacion de las Naciones Unidas para la Agricultural y la Alimentacion, (FAO), Rome, November 19, 1976, p. 542.

> inhabit our countries.[13]

The prevailing international economic order, he argued,

> .. was an unjust system of relations based on inequality ... designed to benefit those countries which had accumulated the fruits of technical progress.[14]

As noted in chapter two, an important component of the dependency perspective is the notion that the global trading order undervalues the raw materials and minerals of developing nations. Various researchers pointed to a long-term tendency for the value of primary products to decline relative to the value of manufactured products. Perez frequently pointed to the "unequal terms of trade" between rich and poor countries,

> Each year the countries producing coffee, meat, tin, copper, iron, oil, etc. hand over the major part of their products to obtain the machines and other manufactured products which they import, ... this continues and increases the decapitalization and impoverishment of our countries... the developed nations have come to abuse the fundamental necessities of the Latin American, Asian, and African man. The price of petroleum, to cite a case particular to Venezuela, for many years deteriorated while we were obligated to receive manufactures from the United States where the price was higher each year, and each day this limited the possibility of development and of meeting the well-being of Venezuelans.[15]

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[13]"Necesidad de un Nuevo Orden Economico Internacional," En el Acto de Instalacion del XVII Congreso Mundial de Gerencia. Caracas, November 3, 1975, p. 399.

[14]Ibid., p. 542.

[15]"Reclamos Trato Justo y Equitativo por Parte de los Paises Desarrollados," Telegrama al Presidente de los Estados Unidos, Gerald Ford. Caracas, September 19, 1974.

Radical scholarship during the period also viewed transnational firms with a good deal of suspicion. Foreign corporations were often depicted as mere transition belts for extracting wealth from the developing world. Perez was also highly critical of the operation of foreign corporations.

> Transnational corporations enter the economies of third world nations looking for labor, cheap natural resources, and markets to invest their excess capital. Their financial and management capacity allows them to penetrate key sectors of the economies of developing countries, placing the national interests and aspirations of these governments under their strategic interests ... their expansion leads to the denationalization of the nation productivity ... this intensifies the relations of dependence and permits the transnationals to retain and increase their profits.[16]

For Perez, not only did these corporations exploit the human and natural resources of developing nations, but the supposed benefits of foreign investment were rarely realized. He was especially suspicious of the notion that foreign investment helped transfer new technologies to the developing world.

> The transfer and assimilation of technology constitutes one of the principal pillars upon which rests ... the economy and social development of Venezuela. The contracts that have been negotiated for the use of technology impose conditions that function in the interest of the countries of origin, measures that apply restrictive clauses and prohibit the assimilation of technology in the country.[17]

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[16]"Necesidad de un Nuevo Orden Economico Internacional," En el Acto de Instalacion del XVII Congreso Mundial de Gerencia. Caracas, November 3, 1975, p. 401.

[17]"Primer Mensaje al Congreso Nacional," Caracas, Congreso Nacional, March 13, 1975. p. 244.

Given these views of the prevailing trade and investment regimes, Perez called for a radical restructuring of North-South relations. Labeling the existing pricing system as a "scandal," he proposed measures to increase the price of exports from the developing world.

> ... there should be a just relationship between the prices of the exports of the developing countries and the prices of our imports. The world can not continue to be divided between the exploited and exploiter countries.[18]

As might be expected, Perez placed particular emphasis on raising the global market price of petroleum.

> The prices of petroleum must continue to rise until we can reach the level which the developed countries understand ... Latin America, Asia, and Africa are coming together to create a system of economic equilibrium ... if the prices of petroleum, sugar, iron, the prices of all raw materials rise to the level of the developed countries we will be able to pay for manufactured products and the technology we need for our development.[19]

Perez also called for greater national control over the operation of transnational corporations. Hailing Decision 24 as the harbinger of a new investment regime, Perez argued,

> ... we can achieve the fundamentals of national sovereignty, we can arrive as a country which abruptly changes the established rules for the

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[18]"El Mundo no Puede Sequir Dividido Entre Paises Explotadores y Paises Explotados," En el Parlamento de la Republica de Portugal, Lisbon, November 9, 1976. p. 589.

[19]"Respondiendo a la Prensa de Venezuela y Del Mundo," Primera Conferencia de Prensa. Miraflores, March 16, 1974. p. 19.

treatment of international capital.[20]

Perez's highly critical view toward transnational capital clearly informed his government's decision to nationalize the iron and petroleum sectors.

> ... the decisions that we have adopted to nationalize our iron and petroleum are an expression of the new road we have taken...we have an irrevocable determination to assure for the nation sovereignty in the management of our natural resources.[21]

He characterized the petroleum and iron ore nationalizations as the first steps toward the "economic liberation of Venezuela" and as a precursor to a new economic order. No longer would the third world be exploited by inadequate payment for its primary products.

> We took the decision to nationalize the basic industries of oil and iron, of which Venezuela affirmed its own sovereign development.[22]

At the same time, Perez was not completely opposed to foreign investment. The key difference between his perspective and that of his predecessors, he argued, was the conditions under which such investment would enter the

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[20]"Aspiramos a Crear Nuevos Terminos de Intercambio en El Comercio Internacional," En Reunion con Directivos de la C. A. Business International, Caracas, November 14, 1974. p. 123.

[21]"El Hierro y el Petroleo Han de Ser Instrumentos de Autentica Liberacion Economica," Congreso Nacional. Caracas, March 3, 1976. p. 329.

[22]"No Sujetamos Nuestra Conducta Internacional A Lineamientos De Ninguna Politica." En el Banquete Que le Fue Ofrecido por el Presidente de Hungary, Caracas, October 9, 1976. p. 510.

nation's economy.

> The objective consists of reorienting foreign investment to the sectors of the economy which today are depressed or backward and where they require the contribution of advanced technologies which we don't have.[23]

Again, Perez's views during the 1970s are important not simply because they suggest a deep-seated desire to redress North-South imbalances, but because they reflect his perception that the existing system was limiting resource flows to the Venezuelan state. By increasing resource flows the administration would be in a position to consolidate power and diffuse societal discontent.

At the same time, Perez's statements during this period also reflect a belief in the viability of economically nationalist policies. Perez's views of the domestic order are especially noteworthy. Changes in Venezuela's economy, he argued, created the necessary political space at home to adopt protectionist measures. In fact, Perez believed local capital would fully support such measures. He drew a clear distinction between the old agro-export oligarchy and the emergent manufacturing class. While recognizing that the oligarchy would oppose the nationalist posture, he stated,

> ... but there are other capitalists whose business does not work against the interests of the nation, but on the contrary they help the nation. This is the emergent bourgeoisie. The progress of the country is a vehicle for the bourgeoisie. They are

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[23]"Primer Mensaje al Congreso Nacional," Caracas, Congreso Nacional, March 13, 1975. p. 244.

> the new promoters, new managers, new businesspeople, who are a factor in our progress and development; they are leaders of the middle class, who also produce the transformation of the nation. They identify their interests with those of Venezuela. They oppose the presence of international capital and the control of the transnationals over our economic life. Historically, this government is witnessing the formation of these new social forces; a powerful middle class made up of managers, executives, and professionals.[24]

He went on to argue that,

> The emergence of a new group of businesspeople ... is an objective phenomenon. It is not something managed or invented by me...they emerged objectively as part of the process and dynamic of the new Venezuelan economy.[25]

Again Perez's views on the changing nature of the economic order reflect considerable scholarly work during this period which purportedly documented the emergence of a national capitalist class producing for the domestic market with interests which diverged from those of the transnationals. The existence of this national capitalist class would provide the social base for restructuring trade and investment regimes. Moreover, the nation's positive foreign accounts, especially after the quadrupling of petroleum prices, seemed to place the government in a position to redefine its traditional economic relations. The petroleum windfall would allow the country to weather any adverse

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[24]Conversaciones con Carlos Andres Perez. (Caracas: Editorial Ateneo, 1979), p. 63.

[25]Ibid., p. 64.

external shocks or sanctions which the policy change might precipitate.

Perez also felt the international environment was conducive to economically nationalist policies, placing particular emphasis on the political power of the third world movement. The unified and coordinated actions of developing nations seemed to represent a genuine instrument for change. As he put it,

> It's necessary to demonstrate to the industrialized countries that the third world is not going to accept or tolerate an international economy without our active participation, to emphasize that the unity of our people in development will be permanently inalterable, and that we will not continue to be deceived or confused with unilateral offers for promises.[26]

Elsewhere he argued,

> The cohesion of the developing countries constitutes a point of record, firm and secure ... we are proposing a great challenge to human destiny, to put an end to the abominable discrimination that today divides the world and constantly threatens peace.[27]

His perspective remained consistent throughout the term. Toward the end of his administration he continued to place faith in the third world movement. This was evident even after domestic conditions had taken a turn for the worse.

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[26]"Tenemos por Delante la Construccion de una America Latina Independiente," En la Reunion del Consejo del Sistema Economico Latinoamericano, (SELA). Caracas, January 12, 1976. p. 439.

[27]"Solidaridad Para el Desarrollo," En Honor de Sus Majestades Imperiales de Iran, Caracas, May 6, 1975. p. 322.

> The solidarity and common thinking between the people and governments [of the developing world] have brought to reality the long sought equality and justice in international relations. The fortunes of the developing countries more than ever are bound to the international political configuration.[28]

The position of Venezuela within the third world movement was a key component of Perez's outlook.

> Venezuela does not speak for the Third World; Venezuela is part of the Third World. What is important and significant is that all developing nations are speaking the same language. This unity, which has finally become globally apparent, is what makes the Third World a power.[29]

For Perez, the newfound bargaining power of the developing nations had created the necessary opening for the establishment of a new global order.

> ... we are demonstrating to the world that it is not only with our words but with our actions .. I am optimistic... finally we have arrived at the international dialogue... where we can obtain a new international economic order in which we will move toward progressively transforming the injustices in international trade[30]

Perez's beliefs were obviously influenced by the success of OPEC in raising the international price of petroleum. OPEC was an example of what could be achieved through the unified actions of developing nations. Moreover, Perez viewed the

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[28]Discurso a el Congreso Nacional, Caracas, March 7, 1979.

[29]Interview with the editorial board of Business Week, October 13, 1975.

[30]"Nacionalizar el Petrole Decision de Venezuela Agrupacion de Orientacion Petroleo," Miraflores, Caracas, January 12, 1975. p. 423.

petroleum cartel as an instrument for the developing nations in redressing North-South imbalances.

> We can use this fundamental resource of the twentieth century as an instrument of negotiation in the hands of the third world, to gain a revision of the unjust international economic order. The developing nations have affirmed their collective intent not to accept any more injustice.[31]

Raising the world market price of petroleum was considered the first step toward breaking the cycle of unequal exchange.

> The OPEC countries have initiated a historical opening with a new negotiating power being in the hands of the third world for the first time. It is an instrument for negotiating the construction of a new international economic order. The rising of petroleum prices does not reflect a self-interested move by the OPEC nations to be used exclusively for our benefit. It represents an irrevocable decision to dignify the relations of exchange and increase the value of the primary materials and basic products of the third world.[32]

As such, Perez viewed the petroleum cartel as a means to guarantee the continuation of North-South negotiations.

> This is the importance of OPEC as an instrument of third world countries to gain international justice. For the first time in the history of the world the West is listening with surprise and confusion, but with attention, to the voice and the demands of the people of the third world. This has been gained by the OPEC countries. It is petroleum that brought the industrialized nations and the developing nations to the North-South conference

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[31]"No Sujetamos Nuestra Conducta Internacional a Lineamientos de Ninguna Politica," En el Banquete que le fue Ofrecido por el Presidente de Hungary, Caracas, October 9, 1976. p. 510.

[32]"Social-Democracia: La Mejor Posibilidad Para la Humanidad Marginada," En la Convencion de la Internacional Socialista, Geneva, November 28, 1976. p. 576.

for international economic cooperation.[33]

As a member of OPEC, Venezuela seemed to be in an especially strong position to restructure existing trade regimes. Speaking at a time when Venezuela was in the process of nationalizing its domestic petroleum industry, Perez argued,

> Venezuela has in its hands an instrument of world importance that is petroleum and we must use it for the benefit of international cooperation and to support the essential dialogue between the providers of raw materials and basic products with the developed nations and to promote just international trade.[34]

This theme was continually reiterated throughout Perez's first administration. Toward the end of 1975 he argued,

> The third world countries, until last year acting individually ... now represent a new reality of unity to defend their common interests. Venezuela as a member of OPEC, plays an important and active role in this process.. The "energy question" ... is serving as a motor to initiate a dialogue on a new international economic order. ... today we have reached the end of a historical stage and the opening of a new reality, ...[35]

For Perez, OPEC was indicative of a changing North-South balance of power. This was reflected in the positions he

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[33]"Una Gira Que Consolidad La Unidad de la OPEP," Exposicion Sobre los Alcances de la Gira Realizada a los Paises Miembros de la OPEP y a Austria, Hecho a Traves de la Television. Caracas, May 9, 1977. p. 66.

[34]"El Crecimiento Economico si es Conciliable con el Progreso y la Justicia Social," Durante el Banqueta Ofrecido en Honor del Primer Ministro de Suecia, Olaf Palme. Caracas, June 26, 1975. p. 331.

[35]"Necesidad de un Nuevo Orden Economico Internacional," En el Acto de Instalacion del XVII Congreso Mundial de Gerencia. Caracas, November 3, 1975. p. 401.

advanced even toward the end of his administration.

> When we talk about the establishment of the new international economic order, we are not expressing a political slogan that is hostile or antagonistic to the industrialized nations. We do so with the conviction and with the analytical knowledge that the only alternative open to mankind is a deep and coherent redressing of injustices on which the present obsolete and unstable order is based. The collapse of this order is already showing dramatic consequences. We are firmly convinced that this is the only way in which we will be able to solve the dilemmas which confront us in contemporary society.[36]

Perez continually linked internal conditions with the external environment. As such, altering the international balance of forces was a crucial first step toward resolving the nation's domestic problems.

> ... the truth is that the fortunes of the developing societies, their programs and possibilities for well-being are today in international politics. Without OPEC, without the unity of the third world, without the coordination of our action, there is very little Venezuela can do in front of the powerful interests that control and manipulate the world economy.[37]

Close analysis of Perez's public pronouncements during the 1970s reveals a firm and uncompromising belief in the necessity and viability of economically nationalist policies. These views were consistent throughout the entire period he was in power. Most significantly, Perez continued to advance

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[36]Welcoming Address for President Jimmy Carter, La Casona, Caracas, March 28, 1978. p. 29.

[37]"Venezuela y Estados Unidos: Defensa de los Derechos Humanos," Entrevista con los Estaciones Television, Caracas, June 26, 1977. p. 94.

this perspective in the latter years of his administration despite the economic downturn which had set in and the fragmentation in the third world movement. To the outside observer, these views seemed to be increasingly at odds with the actual historical circumstances in which he was operating.

To begin, positive foreign accounts tended to mask the extreme vulnerability and dependence of the Venezuelan economy especially on capital and technology from abroad. As noted in the preceding chapter, Venezuela's domestic industries relied extensively upon imports of capital goods and technology. In fact, Venezuelan firms had been closely tied to foreign capital since the industrialization process began. The import substitution process itself was based on importing capital goods by Venezuelan branches of North American multinationals.[38] These firms were also highly dependent on foreign financing and managerial expertise.

In addition, there was little evidence to support Perez's belief in the existence of a newly emergent national manufacturing sector whose interests diverged from those of foreign capital. Restricting trade and investment actually slowed local production and reduced state revenues. This was especially true in 1979, the same year in which Perez explicitly championed the emergence of national capital.

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[38]Moreover, in the first years after nationalization foreign corporations remained in control of the marketing of Venezuelan oil. Even as late as 1980 more than half of oil exports were refined abroad.

Perez's perception of a changing international balance of forces and the prospects for developing nations were also questionable. The North had clearly demonstrated its capacity to resist global reform efforts while the third world movement had fallen into disorder and internal conflict. Although this was apparent midway through his term, Perez continued to champion NIEO proposals and North-South negotiations.

Neo-Liberal, 1989-1992

Analysis of Perez's public pronouncements during his second administration also provides insight into the type of trade and investment policies which have been advanced. Although AD does not enjoy the same decision-making hegemony which it did during the first administration, Perez retains considerable autonomy in the policy-making process.[39]

Perez's statements now represent a fundamental reassessment of the necessity and viability of economically nationalist policies. A fundamental component of Perez's

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[39]This is demonstrated by the fact that Perez has been able to implement the liberal reforms in a nation long-dominated by a culture of statism and protectionism. The changes have been opposed by powerful business and labor groups. In addition, a large segment of Perez's own party opposed the free-market economic principles. These policies go against the historical trajectory of AD which was originally founded on interventionist and socialist economic doctrines. Perez was not the choice of the party leadership for the 1988 presidential election and only gained the nomination after a grass roots primary campaign in which he won a wide majority. The reforms have led to a rift between younger reform-minded bureaucrats in the government and the older political establishment opposed to change.

belief system during the 1970s was the sense that Venezuela had at last gained control over its own destiny and emerged as a major player on the global stage. As a member of OPEC and the third world movement there were few limits on what the nation could achieve. Thinking back on this period, Perez recently remarked,

> The decade of the seventies created the illusion that the progress of our people was a permanent phenomenon. The modest integration forces, the possibility of growth of non-traditional exports, the creation of more import-substitution industries, ... the easy international financing, the possibilities of opening a new North-South dialogue, and the international financial flows, led to a complete optimism.[40]

Today, this optimistic prognosis for the future has all but vanished. Perez's speeches and policy pronouncements are now filled with references to past errors and present limitations. As he put it,

> The program of adjustment is indispensable in order to correct the errors [of the past] and reform the direction we are going. Inevitably we have to pay a cost...but we don't have an alternative.[41]

Protectionist policies are now considered a primary obstacle to the economic advancement of the nation.

> Effectively our commercial system and our system of tariffs was very inflexible in the past because of protectionism ... our products, our enterprises ... in many cases were inefficient, which was

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[40]"Modernizacion Implica Integracion Latinoamericana," XVI Aniversario de la Creacion del SELA. Caracas, September 6, 1990. p. 4.

[41]"Tiempos de Verdades," Discurso Enfrente el Congreso Nacional," Caracas, March 21, 1991. p. 2.

> fundamentally the result of high tariffs and restrictions on imports into the country. This policy is going to change. ... this will bring greater efficiency and greater productivity so that we can enter international competition.[42]

For Perez, the nation's foreign exchange and debt crises afforded few alternatives other than the program of adjustment and liberalization.

> We have not received any fresh money with which to confront our situation, on average we have paid out over fifty percent of the value of our exports on debt service. This is an absolutely intolerable situation. Last year, in 1988, we paid seventy percent of the value of our exports as a result of the drop in oil prices. This has meant a very difficult situation for us. Our international operating reserves have been depleted during these past years and now we have been led to suspend the capital payments and try to negotiate with the international financial system for new resources which would enable us, first of all, to have some sort of guarantee to meet our country's important requirements for inputs and basic materials while at the same time continuing to service our debt and pay interest.[43]

The structural adjustment program of the IMF clearly constituted a major constraint on the government's freedom of action. For Perez, Venezuela had little choice but to enter into such an agreement.

> Now when international reserves are exhausted, we cannot obtain more resources unless we negotiate directly a letter of intent with the International Monetary Fund. Its not that we want to or don't want to, it is that if we didn't do this Venezuela would leave the international financial system.

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[42]Rueda de Prensa Nacional, Miraflores, April 20, 1989. p. 291.

[43]Primera Rueda de Prensa del Presidente Constitutional de la Republica, Miraflores, February 4, 1989. p. 16-17.

> Then we could not obtain any type of international resources and would run the risk that our exports and our international petroleum enterprises could come before the courts by our creditors.[44]

Cross-conditionality between the IMF and other public and private donors in which they all require a similar set of reforms is now a common theme in Perez's speeches.

> We would not obtain credit from any multinational institution, nor from any state, because they all submit to the dictates of the International Monetary Fund and the lack of operative international reserves makes it necessary and indispensable to arrive at an accord with the IMF.[45]

This was considered especially true in terms of gaining access to private financing from abroad.

> The international banks, within the present system, fully obey the points set forth by the Fund. Indirectly, we have to comply with the imposed conditions that the Fund, with little consideration and attention given to the dramatic realities of our peoples. This is the point that we have always maintained, that we are inevitably caught up with the IMF.[46]

The fast pace of global transformation is also a frequent theme in Perez's speeches. His words reflect the persistent belief that Venezuela must be a part of these developments or it will be forever left behind.

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[44]Rueda de Prensa Nacional, Miraflores, May 4, 1989. p. 318.

[45]"Ocho Anos de Recesion Economica," El Comite Politico Nacional de Accion Democratica, March 11, 1989. p. 80.

[46]Primera Rueda de Prensa del Presidente Constitucional de la Republica, Miraflores, February 4, 1989. p. 24.

> The world society is advancing at an impressive speed. To innovate or to perish seems to be the dilemma we are currently faced with. We can no longer wait to adjust to the challenges posed by the world we live in.[47]

For Perez, this required greater integration of the domestic economy in global markets.

> We are moving into a new stage in the Venezuelan economy. My government's instrument is a commercial policy which will insert Venezuela authentically into the world economy.[48]

The urgency with which Perez makes his case for economic integration is especially noteworthy.

> ... it is the hour, maybe the decisive moment for the Latin American countries, to take up with realism and decisive action their actual options, that implies undoubtedly ... global integration ... in the international economy.[49]

This urgency is also reflected in Perez's views toward attracting foreign investment. Whereas he was quite skeptical of such investment during his first administration, he now views it as a real imperative.

> The expansion of our exports is directly linked with our having access to technology and international markets. This is an imperative ... all of our capacity must be used to generate a

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[47] "Toma de Posesion," Discurso Pronunciado en Ocasion de la Toma de Posesion, February 2, 1989.

[48] "La Gerencia Venezolana Frente a los Cambios de la Economia Mundial," VI Congreso de Ejectivos, Caracas, October 30, 1990. p. 4-5.

[49] "Modernizacion Implica Integracion Latinoamericana," XVI Aniversario de la Creacion del SELA. Caracas, September 6, 1990. p. 7.

> favorable climate for foreign investment...[50]

This reassessment of the role which foreign investment can play in the Venezuelan economy is also apparent with respect to the nation's petroleum industry.

> We have said, and I want to repeat now, that the world economy is interdependent. The petroleum industry cannot escape this reality. It needs technology, international markets, and financing.[51]

While Perez clearly considered economically nationalist policies to be both necessary and viable during the 1970s, close study of his perceptions and beliefs since returning to power in 1989 reveals a fundamental reassessment of this position. Analysis of his beliefs, and changes in these beliefs over time, helps account for economic policy choice during the two time periods in question.

Clientelism and Prime Ministerial Dominance in Jamaica

The Jamaican case also highlights the degree to which the relative autonomy of the state and the subjective perceptions of elite decision-makers condition trade and investment policy choice. The Jamaican state has traditionally played an important role in the distribution of goods and services. As in the Venezuelan case, political patronage is a basic feature

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[50] XLV Asamblea Anual de FEDECAMARAS, Maracay, July 21, 1989. p. 213.

[51] "No Hemos Salido del Tunel de la Crisis Aunque ya se Puede Avizorar Un Destino Mas Promisor," Acta de la Independencia, July 5, 1990. p. 9.

of the Jamaican political system. State power is achieved and maintained through a system in which political elites grant patronage resources in exchange for electoral support. The capital-intensive strategy, and corresponding low level of employment, made working for the various state departments or corporations an important source of livelihood.[52] The control and allocation of societal resources thus gives the state a relatively independent source of power in the society.[53] Because local resources are limited, however, the internal political order often hinges on the state's ability

[52]Anthony Paine "Jamaican Society and the Testing of Democracy," in Colin Clarke (ed.) Society and Politics in the Caribbean, (New York: St. Martin's, 1991), p. 36.

[53]Numerous scholars have examined Jamaica's system of political clientelism. See, for example, Carl Stone, Democracy and Clientelism in Jamaica, (New Brunswick, NJ: Transaction Books, 1980); Lewin, 1982, op. cit.; Anthony Payne, 1991, op. cit., and Politics in Jamaica, (London: C. Hurst and Co., 1988); Joan Nelson, "The Political-Economy of Stabilization: Commitment, Capacity, and Public Response," in Robert Bates (ed.) Toward a Political-Economy of Development: A Rational-Choice Perspective. (Berkeley: University of California, 1988), pp. 80-130; and the extensive writings of Carlene J. Edie, including Democracy by Default: Dependency and Clientelism in Jamaica. (Boulder: Lynne Rienner Publishers, 1991); "From Manley to Seaga: The Persistence of Clientelist Politics in Jamaica," Social and Economic Studies. Vol. 38, No. 1, (March 1989), pp. 1-35; "Domestic Politics and External Relations in Jamaica Under Michael Manley, 1972-1980," Studies in Comparative International Development. Vol. 21, No. 1, (Spring 1986), pp. 71-94; and "Jamaican Political Processes: A System in Search of a Paradigm," Journal of Development Studies, Vol. 20, No. 4, (July 1984), pp. 248-270.

to obtain international capital transfers.[54]

Again, patronage networks are linked to the two dominate political parties. The basis of party allegiance is the access which they provide to the material resources of the society. The two parties compete for control of resources and are most successful when they can deliver needed and desirable commodities to their constituents.[55] Elected leaders need to show short term material gains in living standards or social benefits to maintain popularity.[56] However, to preclude the emergence of a radical third alternative the opposition has traditionally been allowed access to state resources.[57]

This clientelist political order is also based on personal loyalties to individual members of the political elite. The members of parliament and local government councilors are the main channels through which scarce

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[54]During the 1950s and 1960s the influx of resources from North America provided the economic resources necessary for the maintenance of clientelism in Jamaica. The "industrialization by invitation" programs helped expand the public sector.

[55]This is especially true of employment opportunities which are distributed through the two dominant unions - the National Workers Union (NWU) and the Bustamante Industrial Trade Union (BITU)- which are affiliated with the PNP and JLP respectively.

[56]Carl Stone, "Running Out of Options in Jamaica: Seaga and Manley Compared," Caribbean Review, Vol. 15, No. 3, (Winter 1987), pp. 10-12, 29-32.

[57]Paine, 1991, op. cit., p. 36.

resources are distributed. The most successful political actors are those who have, or are at least perceived to have, the ability to distribute material benefits.[58] Broader social, class, or ideological factors are less important in determining party allegiance than this system of patronage and party loyalty.[59]

As in the Venezuelan case, this clientelist system helps mediate conflict between the nation's different socio-economic groups. Relative order is maintained because deprived classes seek advantages through clientelist structures rather than by directly threatening the system. Social discontent is thus channeled through the party structures.[60] Party, rather than class or race, constituted one's primary political identity.[61]

The Jamaican political system is also characterized by a concentration of power in the chief executive. This is in part a legacy of the colonial period when an all-powerful

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[58]These benefits include contracts and employment on government projects, access to facilities such as housing, and opportunities for employment in contract labor schemes in the United States.

[59]Carl Stone, Electoral Behavior and Public Opinion in Jamaica, (Mona: University of the West Indies, Institute for Social and Economic Research, 1974), pp. 35-36 and Paine, 1991, op. cit., p. 36.

[60]For Arthur Lewin (1982, op. cit.) and Anthony Payne (1988, op. cit.), the clientelist system helps mute class conflict by guaranteeing multiple class support for the political system.

[61]Paine, 1991, op. cit., p. 36.

Governor enjoyed expansive policy-making powers. After the introduction of self-government, Jamaican political leaders continued to centralize power in the hands of a select group of ministers.[62] The central government exercises all legislative powers. Local government, in the form of fourteen parish councils, is almost completely dependent on financial assistance from Kingston. While the parishes may facilitate some popular participation in decision-making, these decisions are limited to a fairly narrow range of issues.[63] In addition, this is a reflection of the Westminster model of parliamentary government, where the prime minister, as leader of the party in power, has extensive executive and legislative powers. The prime minister is charged with the overall direction and control of state policy.

Jamaica's political culture tends to reinforce the decision-making hegemony of the prime minister. A strong personalistic tradition, characterized by the projection of "messianic" qualities on political leaders, is an important component of the nation's political culture.[64] In general the political parties are held together by an informal pattern

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[62]Stephens and Stephens, 1986, op. cit., p. 40.

[63]*Ibid*., p. 39.

[64] Carl Stone. *Electoral Behavior and Public Opinion in Jamaica*, (Mona: Institute of Social and Economic Studies, 1974) and Terry Lacey, *Violence and Politics in Jamaica: 1960-1970: Internal Security in a Developing Country*. (Toronto, NJ: F. Cass Publishing Co., 1977), pp. 55-6.

of personal loyalties to maximum leaders.[65]

Michael Manley

Michael Manley has long been the preeminent leader of the Peoples National Party.[66] As the son of Norman Washington Manley, the founder of the PNP and the party's first prime minister, Manley has always been a member of Jamaica's small ruling elite and was groomed for a political career at an early age.

Manley's political views first took shape during his college years. As a student at the London School of Economics from 1945-49, Manley was greatly taken with the democratic socialist views of his teacher and mentor Harold Laski. London was also a center for third world nationalist and decolonization movements during this time and Manley became involved in the struggle for Caribbean and African independence.

Manley returned to Jamaica in 1952 and immediately began what came to be a twenty year career in the trade union movement. He became a leader in the PNP affiliated National Workers Union, (NWU) and organized numerous campaigns to

[65]This is also true at the lower levels where party bosses exercise extraordinary personal control over local affairs.

[66]For full treatment of Manley's personal history see Darrell E. Levi's recent biography, Michael Manley: The Making of a Leader. (Kingston: Heinemann, 1989).

support workers in the sugar and bauxite industries. He first entered political life in 1962 when he was appointed by his father to a five year Senate term and given responsibility for representing labor. In 1967 he was elected to the House of Representatives from Central Kingston. Manley was elected Vice President of the PNP in 1967 and took over leadership of the party two years later shortly before his father's death. With the PNP's victory in 1972 he became prime minister.[67]

Manley's personal "charisma" and "persuasive powers" have clearly been a major political asset. One of the local newspapers once described him as "the most messianic figure in Jamaican political history." The article went on to observe that "it is frightening for such total magical powers to be possessed and exercised by one person."[68] As one political commentator put it, the power he exercised was not through the iron-hand discipline, but rather due to the incredible force of his personality and the loyalty which he inspired in others.[69]

Manley has always preferred a highly centralized form of decision-making.[70] While he might consult various advisors

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[67]The PNP captured fifty-six percent of the vote and thirty-seven seats in House of Representative while the JLP captured forty-three percent and sixteen seats.

[68]The Daily Gleaner, Jan 2, 1976.

[69]Kaufman, 1985, op. cit., p. 124.

[70]Stephens and Stephens, 1986, op. cit., p. 154.

on an ad hoc basis, Manley tends to make all of the important decisions and then attempts to convince his colleagues of the wisdom of these decisions.[71] Manley was considered the principal force behind the process of ideological definition and political mobilization. As Stephens and Stephens note, while many PNP moderates were unhappy with the direction of state policy, Manley's position in the party and in Jamaican society as a whole was unassailable, so they were reluctant to openly challenge him.[72] During his first term in office, Manley took measures to further concentrate power in his own hands. He created an Economic Council which became the main forum of policy deliberation, effectively replacing the cabinet as the major policy-making body. He also frequently took over responsibility for policy initiatives from the other ministries.[73]

Champion of Self-Reliance, 1972-1980

Analysis of Manley's perceptions of the opportunities and constraints of the foreign and domestic environment helps account for his advocacy of economically nationalist policies during his first term in office. Like Perez, Manley

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[71]Stephens and Stephens, 1986, op. cit., p. 167 and Stone, 1986A, op. cit., p. 85.

[72]Stephens and Stephens, 1986, op. cit., p. 109.

[73]Stone, 1986, op. cit. p. 85, and Stone, "Power and Policy-Making," op. cit., p. 67.

considered protectionist trade and investment policies to be both necessary to consolidate state power and viable given the particular confluence of historical forces at the time.

Economically nationalist policies were considered necessary for a number of reasons. Primarily, by the late 1960s there were unmistakable signs that Jamaica's social and economic order was becoming increasingly unstable. Growing poverty and inequality during the 1960s had aggravated class and race conflict.[74] While Jamaica's economic growth had been impressive during this period, the benefits of such growth had accrued to only a small segment of the population. The poorest forty percent of Jamaicans, for example, shared only eight percent of the nation's total income. As Stephens and Stephens put it, "affluence and poverty grew in visible sight of one another as the rich built mansions in the hills around Kingston and the unemployed filled the ghetto below."[75] Stagnation of the agricultural sector and the

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[74]Derick Boyd, Macro Economic Stabilization in Jamaica: The Lessons of Recent Experience. Working Paper No. 19, (London: Overseas Development Institute, 1986), p. 12. Unemployment increased from 13.5 percent in 1960 to 23.6 percent in April 1972. Between October 1969 and April 1972 the number of employed people declined by 26,100. Income distribution also worsened during this period. Between 1958 and 1968 the poorest forty percent of the population saw their share of the nation's total income decline from 7.2 percent to 5.4 percent. The average income of the poorest thirty percent of the population is estimated to have fallen from thirty-two to twenty-five dollars per capital each week in constant 1958 dollars. In mid 1968, roughly sixty-five percent of the labor force was earning less than twenty-five dollars per week.

[75]Stephens and Stephens, 1986, op. cit., p. 1.

capital intensive nature of production in the mining and manufacturing sectors had led to increasingly severe problems of rural-urban migration, unemployment, and poverty.[76]

Popular frustrations were reflected in frequent urban protests and outbreaks of violence.[77] The black power riots of October 1968 were the most serious manifestations of these frustrations.[78] This unrest was fueled by the emergence of new radical unions and political groups.[79] Although these groups did not represent a serious challenge to the two dominant parties, they played a major role in shaping popular

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[76]By the end of the 1960s, for example, unemployment among young people in Kingston stood at forty-three percent. In addition, growing numbers of people were arriving in the capital to escape the poverty and hopelessness of the countryside.

[77]In 1965, for example, these frustrations exploded in a week-long series of attacks on business establishments in downtown Kingston. In 1966 clashes between rioters and the police in Western Kingston forced the JLP government to declare a state of emergency.

[78]These riots were sparked off by the dismissal of Walter Rodney, a Marxist historian from Guyana, who had been lecturing at the University of the West Indies. The government's decision to ban Rodney from the nation provoked anger and resentment among the students on the campus and led to a march into downtown Kingston. Broken up by the police, the demonstration spilled over into rioting and looting throughout the city by the unemployed and urban poor.

[79]Obika Gray, Radicalism and Social Change in Jamaica: 1960-1972. (Knoxville: University of Tennessee, 1991); Lacey, 1977, op. cit; and Phillips, 1977, op. cit., p. 77. In the later half of the 1960s there was a marked increase in the combativeness of the Jamaican working class. Strikes increased from 37 in 1965 to 187 by 1970.

consciousness.[80] These groups accused the nation's political leaders and wealthy ethnic groups of conspiring to perpetuate the poverty and powerlessness of the Jamaican masses.[81] The ghetto areas, which became the focal points of ethnic and class militancy, provided community power bases for increasingly violent youth gangs.

The social and political turmoil of this period was a primary impetus for the reforms instituted by the PNP government. Threatened from below, the Manley administration undertook reforms in a desperate attempt to maintain the existing political order. Although the Jamaican political system was able to weather the storm, the riots did indicate what might occur if attempts were not made to address the social failings of the Jamaican political economy.[82]

Again, these reforms can only be understood within the context of the Jamaican political system. Since state power is reproduced through political patronage, expanding state control over societal resources was considered imperative. For Manley, increasing state revenue meant gaining greater

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[80]Stone, 1988, op. cit., p. 12. The Rastafarian Movement, Abeng Group, and the Sixth Form Association were possibly the best examples of this. These groups advocated ethnic nationalism and black liberation, openly challenging white dominance in the society and economy and explicitly rejecting the social ideology of black inferiority to the minority ethnic groups.

[81]Stone, 1988, op. cit., p. 13.

[82]Paine, 1991, op. cit., p. 37.

national control over the local economy and restructuring the nation's trade and investment regimes.[83]

Manley's views were clearly influenced by the radical scholarship of the period. He was particularly influenced by the New World Group which was made up of young scholars at the University of the West Indies (UWI).[84] The basic premise of these scholars was that Jamaica's underdevelopment stemmed from its subordinate position in the global economy. This system continued after the nation obtained formal political independence through the liberal international trade and

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[83]For a more detailed analysis of the degree to which social instability influenced PNP policy choice in the 1970s see William Jesse Biddle and John Stephens, "Dependent Development and Foreign Policy: The Case of Jamaica," International Studies Quarterly. Vol. 33, No. 4, (December 1989), pp. 411-434; Sharpley, op. cit.; and Carl Stone, "Democracy and Society in Jamaica, 1962-1979," Journal of Commonwealth and Comparative Politics. Vol. 19, No. 2, (1981), pp. 115-133.

[84]The works of Norman Girvan, George Beckford, and Lloyd Best, Clive Thomas, Alister McIntyre, and Owen Jefferson are perhaps the most representative of this perspective. In his influential book, Foreign Capital and Economic Underdevelopment in Jamaica, (Kingston: University of the West Indies, 1972), Girvan stated unequivocally that multinational corporations contributed to the economic underdevelopment of Jamaica. Various scholars have explored the impact of the New World Group on policy-making in Jamaica. See especially, Denis Benn, Ideology and Political Development: The Growth and Development of Political Ideas in the Caribbean, 1774-1983. (Kingston: University of the West Indies, Institute of Social and Economic Studies, 1987); Evelyne Huber Stephens and John D. Stephens, "The Transition to Mass Parties and Ideological Politics: The Jamaican Experience Since 1972," Comparative Political Studies. Vol. 19, No. 4, (January 1987), pp. 443-483; and Courtney Blackman. The Practice of Persuasion. (Bridgetown, Barbados: Cedar Press, 1982).

investment regimes and the dominance of transnational capital.[85] Close analysis of Manley's statements and policy pronouncements during this period reflects this perspective. Manley continually decried the history of colonial and neo-colonial relations between the world's rich and poor nations.

> I do not need to remind this audience that the history of economic relations between rich and poor countries in the Western economic systems has produced disastrous results for those of us in the third world. The terms of trade, the basis upon which capital and technology are transferred, the rules governing the operations of international financial institutions, and the role of transnational corporations, have all functioned in a manner that condemns ... part of mankind to persistent and perpetual poverty.[86]

For Manley the very nature of the international economic process was such that, over time, the wealthy industrial nations grew wealthier while the third world struggled to maintain its already woeful standard of living.[87]

> The crisis of today's world arises from the inequality which exists between the metropolitan and the third world. That inequality was the peculiar gift of the colonial system to its posterity.[88]

Again, Manley considered adverse terms of trade to be a fundamental component of the prevailing global order. As he

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[85]Blackman, 1982, op. cit.

[86]Speech to the Commonwealth Parliamentary Association on North-South Relation, Kingston, September 30, 1978. p. 2.

[87]Address to the Men's Canadian Club on Jamaican-Canadian Relations, Ottawa, Canada, October 28, 1976. p. 8.

[88]Keynote Address to the Commonwealth Education Conference, Kingston, June 10, 1974. p. 3.

put it,

> At the heart of our economic dilemma is the continuing crisis that we share with every other developing nation in the world and that is the economic crisis that flows from the adverse terms of trade between the metropolitan nations and the developing countries. While the price indices of manufactured exports surge upwards year by year, we the exporters of primary products find ourselves fighting a desperate rear-guard action year by year to maintain our prices where they were yesterday.[89]

For Manley, the consequence of this process was that the gap between the rich and the poor nations was greater in the early 1970s than it was twenty-five years earlier.

> The fact of the matter is that the process is operating so as to transfer resources and income from the poor to the rich countries and not vice versa. That is the stark, naked, brutal fact of our situation and that is the fact with which we begin.[90]

As such, world trade could not be left at the mercy of purely economic forces.

> Those who argue for free trade both in terms of the right of nations to exchange goods without let or hindrance and in the sense of having prices determined by international market forces are set for a course of inevitable world confrontation and disaster.[91]

Manley's words also reflected a profound skepticism toward

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[89]Address to the First Meeting of the Council of Ministers of the Caribbean Community, Kingston, October 12, 1973. p. 4.

[90]Parliamentary Debate on the World Economic Order and the Role of Developing Nations, Gordon House, Kingston, July 31, 1974. p. 145.

[91]Unpublished essay on the Relation Between Rich and Poor Nations. (1974 estimated)

foreign investment. He frequently blamed transnational corporations for perpetuating the poverty and underdevelopment of Southern nations. This belief was maintained consistently throughout his term in office. As late as October of 1979 he argued,

> The problem lies in the fact that the present system of ownership and management of transnational corporations puts them beyond the reach of the control of the countries which host their activities ... Inevitably, it has led to the development of corporations of vast size and hitherto unimaginable power.[92]

Because Manley felt foreign and domestic policy were inextricably intertwined he called for a fundamental restructuring of Jamaica's trade and investment policies. "Jamaica's foreign policy begins with an understanding of our international economic situation."[93] The solution was thus gaining sovereignty over the country's resources and the constructing a self-reliant economy. These views can be traced to the period before he became prime minister. Writing in Foreign Affairs, he stated,

> If unemployment is to be significantly reduced and the dangerous gap between the agricultural population and the industrial elite is to be narrowed, radically different policies have to be pursued. These will have to involve new thinking about the use to which internal resources are to be

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[92]"Three-Fold Challenge to the World: The Politics of Affirmation," Lecture to the Third World Foundation, London, October 29, 1979. p. 16.

[93]A Search for Solutions. (Canada: Maple House, 1976), p. 196.

put.[94]

He went on to call for a complete reexamination of the sort of foreign capital which should be invited to participate and the relationship between foreign capital and national interests.[95] This theme was picked up again mid-way through his first term when he contended,

> If you are going to have foreign investment in a country it must be foreign investment that participates in a partnership with the host country, that participates on terms that are laid down by the host country, that relates to priorities that are defined by the host country, and that seeks as its return a proper reward for the contribution that it makes to the development of that country.[96]

Manley's advocacy of economically nationalist trade and investment policies was clearly influenced by his perception of Jamaica's position in the global order. During the 1970s, he consistently spoke of the need to dismantle "neocolonial structures" and "imperialism." He called for sovereignty over the nation's resources, independence from foreign control, and the construction of a self-reliant economy. Referring the days before he came to power, he stated,

> ... the reason why we were in that condition [underdevelopment] [was] because we the Jamaican people were trapped; we were trapped in a world system that we

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[94]"Overcoming Insularity in Jamaica," Foreign Affairs, Vol. 49, No. 1, (October 1970), pp. 100-110. p. 105.

[95]*Ibid.*, p. 105.

[96]Address on Government Economic Policies, University of the West Indies, Kingston, November 22, 1976. p. 33.

call imperialism.[97]

It was for this reason, he argued, that the new government realized there could be no change in this country unless they were prepared to change the system.

> Unless we were prepared to join the international struggle against imperialism. ... we wanted to create an economy that would be more independent of foreign control and more responsive to the needs of the majority of the people at home.[98]

Manley thus placed considerable emphasis on the third world movement and the creation of a new international economic order.

> And the type of sovereignty which we defend is one which leads logically to the thrust for non-alignment and the absence of subordination or superordination in our relationships with other countries."[99]

As such, the principal objective of Jamaica's foreign policy was to promote a reorientation of relations between the world's rich and poor countries.

> The cardinal aim of our foreign policy is to work ceaselessly with any nation, in any forum, anywhere in the world to achieve changes in the world's economic system. ... Therefore, we work without apology to this end that the world will one day perhaps introduce elements of political control into international financial arrangements, international transfers of technology, and, above all, international trade. We seek such political intervention to reverse the injustice that results from present arrangements and to give a simple,

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[97]"Not for Sale." Speech at the Annual Conference of the Peoples National Party, Kingston, September 19, 1976. p. 12.

[98]Manley, 1977, op. cit. p. 6.

[99]Manley, 1977, op. cit. p. 6.

> first chance of life to the poor of the poor nations.[100]

Manley reserved his greatest scorn for the IMF, which he viewed as representative of everything that was wrong with the present system. In rejecting an IMF Agreement in 1976 Manley proclaimed,

> This government, on behalf of our people, will not accept anybody anywhere in the world telling us what to do in our country. We are the masters in our house and in our house there shall be no other masters besides ourselves. Above all, we are not for sale.[101]

Again, Manley's views during the 1970s are important not because they demonstrate a desire to redress North-South imbalances per se, but because they reflect a belief that the existing system was limiting resources flows to the Jamaican state. By increasing resource flows the administration would be in a position to better secure state power and quell social discontent.

At the same time, Manley's statements during this period also reflected a belief in the viability of economically nationalist policies. Manley placed particular emphasis on the newfound unity of developing nations. "It is our purpose," he argued, "to make common cause with all developing

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[100]Speech on the Global Economy to the Jamaican Educational and Cultural Institute, New York City, October 27, 1977. p. 11.

[101]"Not for Sale," Speech at the Thirty-Eighth Annual Conference of the Peoples National Party, Kingston, September 19, 1976. p. 16.

nations in the world who share our fate."[102]

Through their collective efforts, Manley continually asserted, developing nations had an unprecedented opportunity to alter international economic regimes. He spoke of the balance of forces internationally having turned in favor of the South and the "forces struggling against imperialism" to be stronger than ever before. Manley repeatedly championed the "trade union of the poor" pointing to the common interests of all developing nations. While conceding that Jamaica did not have the power to change the world, he argued that such change was possible through the collective efforts of 107 nations and more than two billion people.[103]

> We see unity as the key to strength and strength as the key to justice. Alone and separately we are too small to be strong. Together and unified with other developing countries we represent two-thirds of all the people who inhabit the globe. When the two thousand million members of the third world learn finally the secret of unity, they will acquire a strength beyond anything of which they presently dream and will use that strength to underwrite the progress of our people.[104]

Manley also pointed to signs of change among the industrialized nations. Late in his term he argued,

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[102]A Search for Solutions. (Canada: Maple House, 1976), p. 196.

[103]"Parliamentary Debate on the Government's Economic Program, Gordon House, Kingston, June 21, 1978. p. 150.

[104]Address to the First Meeting of the Council of Ministers of the Caribbean Community, Kingston, October 12, 1973. p. 7.

> They are beginning to realize that we represent a political force in the world that cannot be ignored because even though we cannot bully anybody, the fact is that we are a force, we are a market, we have a capacity for will, we have a capacity to speak out in the United Nations, we have a capacity to stand up and let loose that force of the idea across the boundaries of nations.[105]

He went on to contend that,

> ... the world is beginning to realize now that the third world of two billion odd of us is not prepared to be exploited for the rest of history.[106]

It is important to note that these views were consistently advanced throughout his term in office. This was true despite deteriorating economic conditions at home and fragmentation of the third world movement abroad. By the end of the 1970s, Manley's beliefs and perceptions were clearly at odds with the objective conditions of his domestic and foreign environment. Careful analysis of these environments casts doubt on Manley's belief in the necessity and viability of economically nationalist policies. As noted in the preceding chapter, the Jamaican economy was highly dependent on capital and technology from abroad. This was reflected in the high import content of production and the large share of the output destined for export.[107] The economy was also poorly

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[105]Parliamentary Debate on the Government's Economic Program, Gordon House, Kingston, June 21, 1978. p. 150.

[106]Ibid., p. 150.

[107]This was largely a function of the trade policies pursued by previous Jamaican governments. The combination of duty-free or low-duty imports of capital goods, the generous

integrated: expansion in one sector rarely stimulated expansion in other sectors.[108]

With strong links to external markets, the private sector provided little support for the reform program. In fact, as noted in chapter five, local businesspeople actually sought to undermine the government's efforts, closing down factories, dismissing hundreds of workers, cutting production, exporting capital, and withholding taxes. In addition, business groups launched an organized campaign of opposition to the government's policies. The Jamaica Manufacturers Association, Jamaican Chamber of Commerce, and Private Sector Organization of Jamaica collaborated with the JLP to mobilize public opinion against the PNP government.[109]

In addition, external actors were able to undermine the administration's program. Foreign bauxite firms, for example,

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depreciation allowance, and quantitative restrictions on final products encouraged rather capital-intensive investment. Moreover, much of the domestic entrepreneurial activity encouraged by the various policies had low domestic value-added and were thus highly dependent on imported inputs.

[108]The ratio of imported raw materials to gross value of output in the manufacturing sector in 1978 was forty-three percent. (Ayub, 1981, op. cit., 60-61) The overall import content was even higher because capital goods as well as technology were imported. This was especially true in capital-intensive sectors such as the bauxite/alumina industry, but even in labor intensive service sectors such as tourism the import content was over forty percent.

[109]These themes are explored by Patricia Anderson, "Jamaica: The Socialist Seventies," CAAS Newsletter. Center for Afro-American Studies, University of California - Los Angeles, Vol 5, No. 2, (May 1981); and Stephens and Stephens, 1986, op. cit.

effectively neutralized the production levy by transferring their operations from Jamaica to other parts of the world.[110] As noted in chapter four, the Jamaican share of the world bauxite market fell from nineteen percent to less than fourteen percent between 1973 and 1976 while production in Guinea and Australia increased significantly.[111]

Moreover, transnational corporations in other sectors also curtailed their investments in Jamaica.[112] By 1975 new foreign investment had completely dried up, and between 1976 and 1978 Jamaica was actually a net exporter of capital. The loss of foreign investment, outlined in greater detail in the preceding chapter, led to a rapid deterioration in the

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[110]The bauxite companies cut back production by twenty-five percent in 1975 and a further eleven percent in 1976, reducing revenue in the latter year by $54 million. State revenue from the bauxite alumina industry declined between 1974 and 1976 by thirty percent.

[111]In fact, Kaiser had begun to purchase an additional 500,000 tons from Guinea at the very moment when it cut its Jamaican production by the exact same tonnage. What is even more dramatic is the way in which the United States switched its market for bauxite imports. In 1970 Guinea accounted for only four percent of U.S. bauxite imports, while Jamaica accounted for fifty-six percent. By 1976, however, Guinea took up twenty-four percent of the American market while Jamaica's share declined to forty-nine percent. The transnational bauxite firms also filed a suit with the World Bank's International Center for the Settlement of Investment Disputes contesting the legality of the levy and pressed the government to intervene on their behalf with the Jamaican government

[112]Overseas private investment peaked in Jamaica in 1971 at about $176.0 million. It declined steadily between 1972 and 1973 and precipitously in 1974 when it declined by sixty-nine percent to $23.3 million.

nation's foreign exchange reserves. Moreover, in both the manufacturing and mining sectors, the two sectors most dependent on investment from abroad, previous upward trends in production were reversed. In both cases, the value of output peaked in 1974 and declined precipitously thereafter.[113]

The Manley administration was unable to offset the loss in foreign investment by obtaining grants or loans from abroad. Foreign assistance to the country also dried up.[114] The United States Export-Import Bank dropped Jamaica's credit rating from its top to its bottom category and commercial banks ceased lending to the island.

The loss of foreign exchange and increasingly severe budget deficits ultimately derailed the PNP reform program. Given the clientelist nature of Jamaica's political system, regime stability required a continuous flow of resources to the state. When international capital resources were withdrawn the Manley administration lost its capacity for

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[113]In the mining sector the contribution to Jamaica's gross domestic product declined by twenty-eight percent between 1974 and 1977 and in the case of manufacturing the fall was nine percent.

[114]This was true especially of aid from the United States. A previously approved USAID rural development loan was canceled and economic aid was cut from $13.2 million in 1974 to $4.3 million in 1975. U.S. loans, about $16 million in 1974 and 1975, were virtually eliminated for the remainder of the Manley years. Jamaica received some credit and aid from Western and Eastern Europe, the Caribbean Common Market (CARICOM), and some Latin American countries, but none of these sources could fill the gap left by the withdrawal of American financial sources.

patronage. This in turn led to a progressive decline in the level of popular support for the government.

The administration further alienated the nation's poor when it agreed to the IMF accords. The austerity measures which were required led to drastic cuts in real wages, the removal of state subsidies and services, and a shrinking of the public sector.[115] By 1980 the majority of the electorate had come to regard the Manley administration as completely incapable of managing the Jamaican economy or maintaining traditional patronage networks and voted them out of office.

Integrationist, 1989-1992

Analysis of Manley's public pronouncements while out of power and since returning to office in 1989 also helps account for economic policy choice. His statements reflect a fundamental reassessment of the necessity and viability of economically nationalist policies. Manley now points to Jamaica's limited capacity to alter international economic structures; the forces of production are too irreversible to be altered by a small dependent nation with a weak private sector. In a highly revealing interview during the first year

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[115]In 1978 alone real wages fell an estimated thirty-five percent and average real per capita consumption declined by thirteen percent. In 1979 the decline in living standards continued, with a further fall in real wages of five to ten percent. In addition public services, especially in education and health care, significantly deteriorated.

of his new administration, Manley stated,

> I kept thinking that you could make the world economy submit to a system of political management to safeguard against injustice and inequity. I didn't realize that the forces of production are too powerful and their inherent logic too irresistible to be made subservient to political barriers on a permanent basis. Morality vs productive forces is no contest.[116]

He went on to acknowledge the strength and permanence of the prevailing economic system.

> It would continue to adjust and adapt, accommodating new problems. The old confrontationist approach had to be abandoned. The demand for a NIEO was an attempt to reverse a logical process; that was why it had failed. The third world must take into account the logic of contemporary forces of production.[117]

During the 1980s Manley also reassessed the power of the third world movement. Not long after being turned out of office he conceded,

> ... morally based arguments wielded by politically weak and economically weak nations have proved incapable of persuading major industrial powers to agree to political intervention in the working of the world economy.[118]

He went on to admit having overestimated the capacity of the state to redirect the development process.

> What we did was challenge the power of the Western economic structure. This was one country that tried to challenge hegemony and was not

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[116]Interview with Altaf Gauhar, South June 27, 1989.

[117]Ibid.

[118]Unpublished essay on election loss, (1980 estimated).

successful.[119]

The Jamaican economy was simply too small and too vulnerable to withstand sanctions or pariah treatment from the industrialized nations. In 1983 Manley pointed to ...

> ... the unwillingness of the developed countries to make any significant concessions ... obviously the developed countries begin with the reality of the enormous economic presence expressed in the powerful private sectors, multinational corporation, and the huge finance structure that has such an important role in the way their economies work. All of these corporations within a developed country and all of these institutions begin, of necessity, with an enormous vested interest in the status quo. And they, I think, regard an international dialogue with obvious hostility. They are there to guard as jealously as they can the system of which they are the expression, so that within the political systems of the developed countries you start with this economic reality that is opposed to change. And the political process in the developed countries is more the creature of that economic structure than vice versa.[120]

Moreover, the position of the developing nations continued to decline during the 1980s. As he put it in a 1987 article,

> Throughout the 1980s they [the industrialized nations] have worked to erode the institutions through which negotiations might be pursued; they have isolated regimes which did not share their economic perspective; and have managed financial flows to bodies like the IMF and the World Bank to ensure that financial crises were met with minimum responses. All this was part of an explicit intention to discourage third world countries from notions of change while increasing the likelihood that the third world would be driven to increasing

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[119]Ibid.

[120]Interview with Altaf Gauhar, Kingston, July, 1979. Published in Talking About Development, (London: The Third World Foundation, 1983), p. 120-121.

> dependence on private overseas investment capital.[121]

Manley thus found little prospect for continuing the North-South negotiations for bringing about international economic change.

> The tragedy of our circumstance in the third world is that so acute has the crisis become with the foreign exchange shortage, the interest rates and shortage of financial support that more and more of the agenda of change is collapsing in the third world. Abject surrender to neo-colonialism in response to these pressures is an increasingly sought option. There is no way anyone of us is going to be able to reverse all of this on his own.[122]

For Manley, the era of tactical gains was over; developing nations had to learn how to act as a partner and a competitor in the world system.

The self-reliant strategy of the 1970s did not reduce Jamaica's dependence on foreign trade, capital, or technology. As in the Venezuelan case, the high import content of the nation's consumption and production meant that the functioning of the economy is dependent by its import capacity. This capacity, Manley now concedes, required inflows of foreign capital. As such, any hostility toward foreign investors which may have been evident in the 1970s has long since dissipated. As he put it,

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[121]Article on International Economic Changes and the Role of Developing Nations, <u>South</u>, (November 26, 1987), p. 3.

[122]"The Management of Change" in Judith Wedderbum, (ed.) <u>A Caribbean Reader on Development</u>. (Kingston: Friedrich Ebert Stiftung, 1986), p. 207.

> There is no question that we need foreign investors and we welcome foreign investors. And for those of you who find it sensible to invest in Jamaica, you may do so with absolute certainty that we recognize your indisputable right for repatriation of profits.[123]

This has been a consistent position since returning to office.

Elsewhere he stated,

> ... we absolutely welcome foreign capital, as we did and do. We think it has a profound part to play in our development. We have deep respect for foreign capital in Jamaica. We know and understand that if foreign capital comes and sets up business, that honorable terms of its relationship must be negotiated. We know and well understand that foreign capital cannot be asked to come as an act of charity, but has its legitimate expectations of profit, and must be able to repatriate those profits.[124]

In fact, Manley now champions the important role which direct private foreign investment can play in development, providing export earnings, creating the resources from which the investment is serviced, and constituting an efficient means for skill transfer.[125]

Given the nation's foreign exchange and debt crises, Manley now sees few alternatives other than reaching an agreement with the IMF.

> Without it [an IMF agreement] we are not only cut off from IMF financing and World Bank loans, we are cut off from all foreign aid. We are even cut off

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[123] "The Economic Vulnerabilities of Developing Nations," Commonwealth Finance Ministers Meeting, Kingston, September 20, 1989. p. 20.

[124] Ibid.

[125] Ibid.

> from lines of credit, and that is the reality. I will tell you straight: without an IMF agreement the Jamaican economy would be in serious trouble in four weeks, or less.[126]

Manley's present beliefs also reflect a reconsideration of the structure of the global economy.

> It is quite clear to us that the world that we knew has almost disappeared. The world of national economies has almost disappeared. We're really dealing with a global economy now, and every year it globalizes more rapidly.[127]

In the recently completed epilogue included in the updated edition of The Politics of Change, Manley returned to this theme. Referring to the "changing realities of the world," Manley argued,

> In a globalized economy, former notions of national economic sovereignty take on less and less relevance. Economies of scale and internal economic rationalization within regions have become the price of survival and the launching pad for competitive parity.[128]

For Manley, economic strength will come from riding this wave of globalization. As he put it, "the global economy is now a reality, the challenge for third world nations today is working with that reality".[129] Jamaica,

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[126]"The Challenge of the Nineties: A Nation United," New Year's Message, Kingston, January 1, 1990. p. 9.

[127]Parliamentary Debate on the Budget 1989-1990, Gordon House, Kingston, June 29, 1989. p. 33-34.

[128]"Epilogue" to the Second Edition of The Politics of Change: A Jamaican Testament, (Washington, D.C.: Howard University Press, 1990) p. 243.

[129]Interview with Altaf Gauhar, South, June 27, 1989, p. 5.

> ... must become efficient and competitive and able to behave as part of the world economic system. The world is moving towards one market and while the third world might still be able to wring a few more concessions and privileges out of the system, it must prepare itself to operate in a highly competitive environment.[130]

The unequal or discriminatory nature of North-South resource transfers is no longer a major preoccupation. In fact, Manley now champions the benefits of participation in global markets,

> ...the only way you can break through this [debt crisis] is by setting in place a market economy that has a powerful set of built-in incentives to produce ... foreign exchange. The market is the guarantee that you will attain the necessary level of competitive efficiency to be able to survive in a world market.[131]

In short, while Manley clearly considered economically nationalist policies to be both necessary and viable during the 1970s, close analysis of his economic beliefs today reveals a fundamental reassessment of this position. Analysis of his beliefs, and changes in these beliefs over time, thus helps account for economic policy choice during the two time periods in question.

## The Subjective Basis of Policy-Choice

The past three chapters have considered alternative explanations for economic policy choice during the Carlos Andres Perez and Michael Manley administrations. Structural

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[130] Ibid., p. 5.

[131] As quoted in The Guardian, New York, February 12, 1992.

approaches, which consider the constraints of the foreign or domestic environment, were examined in chapters four and five. Although these approaches highlighted important constraints on policy choice they were unable to fully account for the maintenance of economically nationalist policies in the 1970s nor the adoption of a liberal agenda today.

This chapter has advanced an alternative approach which, while remaining sensitive to changing foreign and domestic environmental conditions, also considers the independent or autonomous role of the state and state decision-makers. In both the Venezuelan and Jamaican cases the state has assumed a central role in the production and distribution of goods and services. As such, the state must be seen as an autonomous actor with interests distinct from those of other societal groups.

It is also important to consider the subjective role of Perez and Manley. While environmental forces clearly condition state policies, these forces are only significant to the extent that they are correctly perceived and interpreted by these individuals. Analysis of decision-maker perceptions of their environment, and how these perceptions have changed overtime, must be seen as a contributing factor in the study of economic policy-making.

This project begins with the assumption that political leaders are primarily concerned with maintaining state power. Policies are chosen on the basis of which measures are necessary to reproduce the existing political order. In state capitalist or clientelist political systems, such as Venezuela and Jamaica, this generally means policies which maximize state control over societal resources. Decision-makers must also consider the relative viability of alternative policies: which policies can be sustained over time given the constraints of their foreign and domestic environments. While economically nationalist policies were considered both necessary and viable in the 1970s, state policy-makers have since concluded that present domestic political imperatives and external power inequalities preclude challenges to global liberalism today.

This is not meant to suggest that perceptual changes are unrelated to objective conditions. Clearly the international and domestic environments have changed during the period under review. However, structural arguments which focus exclusively on these environmental changes only tell part of the story. Since policy choice is based, at least in part, on decision-maker perceptions of the opportunities and constraints of their foreign and domestic environment, and since these perceptions may not be completely accurate or may change with a lag, a decision-maker approach must be central to the study of foreign economic policy choice in Latin America and the Caribbean.

## Chapter Seven

## THE HEGEMONY OF NEO-LIBERALISM

Carlos Andres Perez and Michael Manley were at the forefront of challenges to global liberalism during the 1970s. Both leaders restructured their nation's trade and investment regimes in an attempt to promote greater "self-reliance" and "economic sovereignty." Since returning to power in 1989, Perez and Manley have abandoned this economically nationalist posture and now champion the re-integration of their nations' economies into the global market.

This project has analyzed foreign economic policy choice in Venezuela and Jamaica in an attempt to better understand and explain the movement from economic nationalism to neo-liberalism. In this last chapter, I draw some conclusions from the study and consider their implications for the other nations of Latin America and the Caribbean.

### Trade and Investment Policies Reconsidered

Structural approaches presently dominate the study of economic policy-making in the developing world. For some, a nation's trade and investment policies reflect its relative position in the system of states. While nations with a fairly strong external position might adopt a more nationalist posture, nations in a relatively weak or dependent position are expected to acquiesce to the existing liberal regimes.

Other scholars link trade and investment policies with the domestic distribution of power between the commercial elite linked to export trade and those industrialists producing for the internal market. In those cases where the commercial or international faction of capital is dominant, liberal trade and investment policies are expected. Conversely, more nationalist policies might be adopted in those cases where a local manufacturing sector has emerged and gained some prominence in the local economy.

Although these structural approaches highlight important constraints on economic policy they do not fully account for policy choice in Venezuela and Jamaica. International structural approaches are unable to explain continuation of protectionist policies in the 1970s at a time when both nations were experiencing deterioration in their external accounts and chronic foreign exchange shortages. In the Venezuelan case, the nation's external position deteriorated mid-way through Perez's first term. Although this deterioration was not as severe as that of Jamaica it did represent a considerable departure from the 1974-75 period. However, the administration continued to pursue economically nationalist policies including the tightening of the nation's trade and investment regimes and the nationalization of the petroleum and iron-ore sectors.

The shortcomings of this perspective are even more apparent in the Jamaican case. On the one hand, given the small size, limited resources, and extreme dependence of the Jamaican economy, it's difficult to make the case that the Manley administration was ever in a position to challenge global liberalism. The fact that economically nationalist policies were maintained and even stepped up in the face of a severe deterioration in the nation's foreign accounts casts further doubt on this perspective.

At the same time, it is important to draw a distinction between the initiation and continuation of public policies. Once a policy has been adopted leaders have a variety of reasons for not wanting to change directions in mid-course. Given the patronage or clientelist nature of politics in both nations, Perez and Manley may have been willing to discount the future in order to avoid undercutting their existing political support. After a ten year hiatus from power, however, both leaders were in a better position to embark on a completely different policy agenda upon returning to office.

While this distinction is important, the structural argument posits a fairly direct and determinant relationship between external accounts and policy choice. The ability of both leaders to maintain trade and investment policies which ran counter to their objective environmental conditions could not be accounted for by the structural approaches. The fact that both leaders actually stepped up economically nationalist policies in the face of economic decline casts further doubt on these perspectives. Lastly, the Manley administration did alter its policies during the 1970s, shifting back and forth between the IMF and non-IMF paths. Given the intrinsic reasons why decision-makers would generally be expected to avoid such behavior, its occurrence in the Jamaican case points to the need for a more subjective interpretation.

Close analysis of the Venezuelan and Jamaican cases also provides little support for a domestic structures perspective. It's difficult to link economically nationalist policies with the emergence of a new national entrepreneurial class or the shift toward liberal policies with the reemergence of a strong commercial sector. Both nations are characterized by a relatively weak domestic manufacturing sector with strong ties to the traditional oligarchy and transnational capital. Moreover, the economically nationalist policies pursued during the 1970s tended to support state rather than private sector expansion.

A domestic structures perspective is also unable to account for the shift to a liberal posture today without a noticeable change in internal class alignments. In fact, given the expansion of the state in both nations during the past two decades and the simultaneous decline in foreign investment, there is, if anything, greater national control of the economy today than there was in the early 1970s. As such, the neo-liberal agenda of Perez and Manley would not have been predicted by a domestic structures perspective.

Both structural approaches link state policies with environmental forces: trade and investment policies are thought to reflect the opportunities and constraints of the foreign or domestic environment. This highlights a critical weakness in both perspectives: since state policies are considered a response to environmental forces neither approach allows for the possible independent or autonomous role of the state. Yet, as chapter six demonstrated, the independent role of the state is particularly evident in Venezuela and Jamaica. Given the lack of a strong private sector, the state has often played an important role in the production of goods and services. In addition, because the political systems of both nations are based on clientelism or the maintenance of patronage networks, the state has frequently assumed a prominent role in the distribution of resources.

International and domestic structural approaches also neglect the intervening or contributing role played by individual decision-makers. Since public policies are formulated and implemented by individuals in position of state power, and since these individuals often misinterpret their foreign and domestic environments, fail to respond to changes in these environments, or respond differently to the same environmental influences, their attitudes, perceptions, and beliefs must be included in the analysis. As such, it is important to understand the subjective or perceptual lenses through which Perez and Manley viewed their world.

This is not meant to suggest that the perceptions which these leaders hold are unrelated to the real world. Clearly the international and domestic environments have changed during the period under review. However, structural arguments which focus exclusively on these environmental changes only tell part of the story. Since policy choice is based on each decision-maker's perceptions of the opportunities and constraints of their foreign and domestic environment, an eclectic approach, which considers both objective and subjective factors is necessary.

## The Venezuelan and Jamaican Experience

During the 1970s, Carlos Andres Perez and Michael Manley considered economically nationalist policies to be both necessary and viable. On the one hand, both leaders felt existing trade and investment regimes limited resource flows to the state. While the global market undervalued their exports, their nation's human and natural resources were being exploited by transnational corporations. Protectionist trade and investment policies were thus introduced in order to gain greater sovereignty over the national economy and increase resource flows into the national treasury.

At the same time, the perceived need for economically nationalist policies was not, in itself, a sufficient condition for the adoption of such policies. Perez and Manley also had to believe that challenges to global liberalism were viable: that there was the necessary political space to significantly restructure their foreign trade and investment relations. Positive foreign accounts at home, whether from petroleum or bauxite revenues, seemed to suggest that both nations were in a position to reorder traditional economic relations. Moreover, changes in the global system seemed to present these nations with an unprecedented opportunity to institute protectionist measures. Both leaders felt changes in the North-South distribution of power limited the North's ability to defend the liberal order. Recession, inflation and unemployment in the major industrial nations demonstrated the fragility of their economies.

At the same time, Southern nations appeared to be on the ascendancy. Global resource scarcities seemed to enhance the bargaining strength of these nations as many resources critical for maintaining industrial economies were located in the South. Southern nations were also beginning to present a united front in global forums. Their common historical experience and position in the international division of labor was helping to bring these nations together. The unified and coordinated actions of developing nations seemed to constitute a new force in the global arena. The success of OPEC in quadrupling the price of oil provided a concrete example of what could be achieved through their collective efforts.

In short, Perez and Manley felt economically nationalist policies were both necessary and viable during their first administrations. While protectionist trade and investment policies would increase resource flows to the state, positive foreign accounts and a shift in the international balance of forces would guarantee the long-term viability of such policies. Moreover, these perceptions were consistently maintained despite increasing evidence that they were at odds with the objective conditions of the foreign and domestic environment.

Since returning to power in 1989, both leaders have reassessed their previous views. The experience of the 1970s demonstrated the extent to which each nation remained extremely dependent on foreign markets, capital, and technology. The rigid distinction between foreign and local capital had been exaggerated. Positive foreign accounts often disguised the structural weakness and economic dependence of each nation. Internationally, the Northern states demonstrated their ability to meet the changing imperatives of the global system. The renewed economic strength of the North allowed them to reassert hegemony over the Southern nations and deflect challenges to the liberal order. The third world campaign for a new international economic order ended largely in failure.

The shift from economic nationalism to neo-liberalism during the first and second administrations of Perez and

Manley can best be understood through an approach which focuses on state imperatives and decision-maker choice. Each leader has reassessed which policies are necessary and viable given the evolution and structure of their foreign and domestic environments. While economically nationalist policies were considered both necessary and viable during the 1970s this is no longer the case. Domestic political imperatives and the constraints of the external environment have convinced both leaders that there is virtually no alternative to the liberal reforms.

This reassessment is reflected in recent statements. In a 1989 interview, Perez conceded, "one cannot cling to old formulas but must take advantage of lessons learned in the previous exercise of presidential responsibilities."[1] Similarly, Manley wrote of going "back to the drawing board" in his mind to undertake a "much more frank and experienced assessment of the nature of the power structure with which you have to operate internationally and nationally."[2] While individuals often exhibit closed belief systems which are relatively impervious to evidence which contradicts existing beliefs, Perez and Manley have demonstrated an ability to

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[1]As quoted by Paul H. Boeker. Lost Illusions: Latin America's Struggle for Democracy, as Recounted by its Leaders. (La Jolla: Institute of the Americas, 1990), p. 139.

[2]Manley, 1982, op. cit,

readjust their beliefs and values to changing objective conditions.

Manley resigned from his positions as prime minister and president of the PNP in March of 1992. A party conference was called to select a new leader and P. J. Patterson, the party chairman, won a landslide victory. The leadership change in Jamaica is not expected to produce major changes in the government's economic policies. In fact, Manley assured the nation that there would be no deviation from the prevailing policies. As he put it, the change "will not affect the market economy path, will not affect liberalization, will not affect privatization, will not affect our export orientation."[3] Similarly, Patterson, who was instrumental in carrying out these policies since 1989 expressed his continued support for the reforms.

These reforms have been especially hard for Jamaica's poor and working class. State subsidies and price controls have been removed, public sector jobs cut, and wages reduced. This has led to considerable social discontent, manifested in both rising petty crime, gang violence, and illegal trafficking in narcotics.

Liberal reforms have engendered even greater social unrest in Venezuela. Within a month of returning to office, Perez launched an IMF-sponsored adjustment program. The price

[3]The Jamaican Weekly Gleaner, March 23, 1992, p. 4.

increases which accompanied the reforms set off two days of protests and street riots in Caracas and sixteen other cities. The government declared a state of emergency, suspended the constitution, and brought in the military to put down the disturbance. The government reported 276 fatalities while human rights groups placed the number at over a thousand.

Although order was restored, the government sustained a serious erosion of its authority and legitimacy. During 1990 and 1991 there were roughly five thousand street protests and labor strikes. Violent conflicts have increased dramatically, with students escalating clashes with the police and army, and barrio residents assaulting food trucks and grocery stores in various cities.

Hoping to take advantage of this discontent and instability, disaffected groups within the nation's military staged an attempted coup on February 4, 1992. The uprising was quickly suppressed by loyalist forces. Eighty soldiers and civilians were killed during the fighting and over a thousand mutinous soldiers were arrested, including 133 junior army officers identified as the conspirators. In Venezuela's last serious coup attempt thirty years earlier, trade unions and political parties led mass rallies in favor of the constitutional government. This time, the threat to Venezuela's democracy was met by a resounding silence. Those who did speak out tended to express support for the rebellious military officers.

Support for the government has since plummeted to an all time low. The administration's austerity measures, cutting state subsidies and services, selling off public corporations, and opening up the economy to foreign competition, has led to rising unemployment and inflation, falling wages, a break down in public services, and a severe deterioration in living standards. The real minimum wage at the beginning of 1992 was just forty-four percent of the 1987 level. Opposition leaders have also charged the government with widespread corruption in contracts for construction, roads and other state projects. In a recent public opinion poll, eighty-one percent of respondents voiced little or no confidence in the president.

Despite increasing social unrest, the Jamaican and Venezuelan governments have continued to push through the neo-liberal reforms. These policies are unlikely to change at anytime in the near future. In many respects, the reforms reflect a fundamental transformation in state-society relations. In the past, the state has reproduced the existing political and social order through direct intervention in the economy and the provision of basic services to the poor. Today, the Venezuelan and Jamaican states are abdicating any responsibility for the production or distribution of goods and services.

What accounts for this radical reorientation in government priorities? In many respects, the Venezuelan and Jamaican governments no longer see their primary base of support being within their own country. As the global economy becomes increasingly a single unit, the growth and development of any national economy is a function of its transnational linkages. The distinction between foreign and domestic capital, for example, has become virtually meaningless. Liberalization of trade and investment regimes and privatization of state-owned enterprises reflects a recognition of the transnational nature of the accumulation process.

At the same time, the social unrest evident in both Venezuela and Jamaica reflects the risks inherent in this strategy. The sacrifices associated with fiscal austerity and free market reforms have fallen disproportionately on the poor and working class. While these reforms have brought down inflation and restored economic growth relatively little of the wealth has trickled down. In fact, inequalities have expanded during this period. Continued unrest could undermine the social order and create such a climate of uncertainty that investors would loose confidence in the stability of these countries. In this respect, the reform process might actually undermine the political stability of the reformers.

## Neo-Liberalism in Latin America and the Caribbean

The shift from economic nationalism to neo-liberalism is not unique to Venezuela and Jamaica. As noted in chapter one, there has been a fairly widespread movement toward the liberalization of trade and investment regimes in Latin America and the Caribbean. Nations throughout the region have slashed import restrictions and established incentives to attract foreign investors.

The economic beliefs which Perez and Manley now exhibit reflect a broader trend in the region. There is a generalized loss of faith in state interventionary approaches and a recognition that the state took on responsibilities far in excess of its capacity to deliver.

Decision-makers have also been influenced by events outside the region. A major consequence of the collapse of the centrally-planned economies of Eastern Europe and the Soviet Union has been a widespread reappraisal of development strategies. The worldwide decline of socialist and statist models has undermined faith in non-market strategies. In addition, with the decline of the "socialist" bloc, there are few alternative sources of outside support other than the Western industrialized nations or international capital markets.

At the same time, the success of the newly industrializing countries (NICS) of East Asia which have pursued export-led strategies seems to suggest that policy choice is not a trade off between dependency and development. A self-reliant strategy is no longer considered a viable alternative. Failing to carry out the market oriented reforms would mean that these nations would be cut off from global markets, investment capital, and advanced technology. Given the scope and swiftness of change in the world today, failing to join the global economy would leave these nations hopelessly behind.

The experience of the 1980s has also undermined confidence in the ability of Latin American and Caribbean nations to challenge liberal trade and investment regimes. The nations of this region are in the midst of their most profound economic crisis of the post-war period. Global recessions of the mid-1970s and early 1980s, coupled with deteriorating terms of trade, have led to negative economic growth and chronic balance of payments crises while attempts to offset foreign exchange shortages through massive external borrowing have engendered debilitating debt burdens.

The combination of higher debt payments and reduced export earnings has led to chronic liquidity and foreign exchange shortages throughout Latin America and the Caribbean. New commercial lending has also dried up as the banks have lost confidence in the ability of these nations to repay their past loans. At the same time, bilateral and multilateral organizations are either unwilling or unable to step in and make up the deficiency.

In order to continue purchasing vital imports many nations have turned to the International Monetary Fund (IMF) for assistance. IMF support is contingent on the adoption of "structural adjustment" reforms designed to restore "equilibrium" to the nation's internal and external accounts. The reforms reflect the Fund's preference for a market-based allocation of resources between and within nations.

It is now accepted practice for both governments and private banks to make their loans to developing nations contingent upon the borrowing country reaching an agreement with the IMF. As such, Latin American and Caribbean decision-makers see few alternatives to these liberal reforms. The spectacular growth and diversification of transnational corporations together with the expansion of international information and financial systems constitutes a fundamental restructuring of the world economy. As national economies become increasingly subordinate to the global economy, state autonomy and control over economic policy is reduced. It is precisely this loss of state autonomy which constitutes the "new world order."

## Appendix

## MEASURING PERCEPTIONS AND BELIEFS

Chapter six considered the individual role played by Carlos Andres Perez and Michael Manley in formulating their nations' foreign economic policies. I argued that the trade and investment policy choice in Venezuela and Jamaica during the two time periods under study cannot be fully understood unless we consider the subjective perceptions and beliefs which each decision-maker held of their respective foreign and domestic environments.

The role of decision-maker perceptions is becoming increasingly recognized by scholars of international relations and foreign policy as an important intervening or contributing variable in the policy-making process. Decision-makers are thought to act in response to the particular ways in which they perceive, evaluate, and interpret incoming information from their environments. Because political leaders respond to their image of a situation, rather than to objective reality, there are often divergent responses to the same environmental stimuli.

Despite increased recognition of the role played by decision-maker perceptions and beliefs, it has often been difficult to devise research programs which link belief systems with foreign policy outcomes. This has been due, at least in part, to the reliability of the primary data sources themselves. To what extent can we accurately assess the perceptions, beliefs, values, and motivations of decision-makers by scrutinizing their public pronouncements? It is frequently argued that the verbal articulations of decision-makers are merely "instruments" for achieving political ends and do not necessarily reflect a leader's true beliefs and convictions. Words are carefully chosen to have a desired affect on a target audience. As such, political leaders are thought to use language in order to "construct realities" rather than simply receive and process them.

This issue is of particular concern when leaders point to international political or economic injustices to account for domestic policy failures. As Fauzy Mansour put it,

> In certain cases, the agitation for a New International Economic Order is used by some regimes for throwing all the blame of the worsening conditions of the masses on external forces alone and for establishing an alibi for themselves.[1]

Similarly, Bruce Moon noted that,

> It has long been accepted that the anti-imperialist rhetoric of the new international economic order has insulated many third world governments from

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[1]Fauzy Mansour, Third World Revolt and Self-Reliant Auto-Centered Strategy of Development. (Dakar: United Nations African Institute for Economic Development and Planning, Reproduction 406, 1977).

domestic criticism of poor economic performance.[2] Lastly, Andre Gunder Frank warned of the practice in many countries to ...

> ...accompany or even precede increasingly active domestic political repression by compensating progressive pronouncements on foreign affairs that are internally costless and even help to neutralize some progressive political forces on the domestic scene.[3]

Should we thus conclude that verbal articulations provide little or no clue to a decision-makers actual perceptions and beliefs? In this project I have argued that verbal expressions can be valid indicators of a decision-makers actual views. This position is based on the following considerations.

To begin, decision-makers are likely to feel some pressure to have their actions conform with stated declarations. As Katarina Brodin points out, "the risk of negative sanctions tends to deter the decision-maker from courses of action he fears could be interpreted as inconsistent with an already established policy or previous commitments ... a discrepancy between doctrine and actions carries with it the risk of gradually eroding confidence in

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[2]Bruce Moon, "Political-Economy Approaches to the Comparative Study of Foreign Policy," in Charles Hermann, et. al. (eds.) <u>New Directions in the Study of Foreign Policy</u>. (Boston: Allen and Unwin, 1987), p. 42.

[3]Andre Gunder Frank, "Rhetoric and Reality of the New International Economic Order," University of East Anglia: <u>Development Studies Discussion Paper 35</u> (February 1979), pp. 12-13.

the political leadership and undermining the public image of the decision-maker."[4] In other words, official declarations ... "tend to create commitments which serve as barriers against sudden or sharp changes of policy."[5]

Moreover, if certain positions are continually reiterated we can place greater confidence in the degree to which they accurately reflect actual perceptions and beliefs. Decision-makers would be unlikely to consistently make statements which differ from their beliefs. This is especially true of statements which are made to a variety of different audiences over a relatively long time span.

In some respects, a research design which relies on public articulations may have advantages over other forms of data collection and analysis. This approach is unobtrusive in that it does not affect the behavior of the person being studied; it is flexible or able to adopt to the categories used by the person being studied; it is sensitive to context or the extent to which a situation is likely to encourage a frank and honest response; and it is able to cope with a large volume of material. Of course, access to a leader's personal correspondence, diaries, memos, recordings, etc. would be ideal, but these materials are rarely available, especially if the time period under study is relatively recent.

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[4]Katarina Brodin, "Belief Systems, Doctrines, and Foreign Policy," Cooperation and Conflict, Vol. 7, (1972), p. 107.

[5]Ibid., p. 106.

Although this project relied exclusively on the public articulations of Perez and Manley, I took a number of measures to enhance the validity and reliability of the data base. This included 1) analyzing a large number of public speeches, 2) including speeches from over an extended period of time, 3) including speeches to many diverse audiences, especially audiences in which the decision-maker was not seeking to influence opinion on a particular policy choice, 4) including speeches far removed from the actual policy or issue of concern, (since decision-makers would naturally be expected to issue statements which justify and defend a policy decision), 5) including spontaneous material in order to minimize the effects of ghost writing, and 6) drawing upon collaborative evidence, such as interviewing people who were involved in the decision-making process to see whether my findings generally conformed with prevailing expectations.

Although it is difficult to place absolute confidence in content analysis as a research method the fact that both Perez and Manley have acknowledged undergoing a fundamental reassessment of their perceptions and beliefs lends additional support to the principal conclusions of this study.

## Appendix

## DATA BASE - CARLOS ANDRES PEREZ

"El Pais Frente a sus Realidades," Toma de Posesion ante el Congreso de la Republica. Caracas, March 12, 1974.

"Venezuela Propone: Crear Un Fondo Interamericano Para Investigaciones Agricola," En la Instalacion de la XIII Reunion de la Junta Directiva del Consejo Tecnico Consultivo del Instituto InterAmericano de Ciencias Agricolas, Caracas, May 15, 1974.

"Respondiendo a la Prensa de Venezuela y Del Mundo," Primera Conferencia de Prensa. Miraflores, March 16, 1974.

"Discurso en el Acto de Juramentacion de la Comision de Reversion de las Concesiones de Hidrocarburos," May 16, 1974.

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