Is Dependency Theory Relevant in the Twenty-First Century?

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In the last decade, the debate over the relevance of the dependency theory in explaining contemporary international political economy has re-emerged in academic discourse. The dependency theory emerged in the 1960s as a reaction to the modernisation theory and trickle-down economic theory. While the modernisation theory assumes a unilinear and progressive development of societies by holding industrialisation as a prerequisite for development (Regmi, 2018), the trickle-down theory contends that rapid economic growth automatically reduces inequality as wealth trickles down from the rich to the poor (Arndt, 1983). As a critique of both theories, the dependency theory argues that development is neither unidirectional nor economic growth in developed countries automatically translates to the development of less developed ones. Instead, underdevelopment results from obstacles created by 'centre nations' through the integration of 'peripheries' into the world capitalist system, leading to the economic reliance of the periphery on centre nations. Although the dependency theory was a dominant explanatory framework between the 1960s and 1980s, it declined in the mid-1980s due to the rise of neoclassical economics and its inability to explain some changes in the international political economy structure, particularly the economic success of the Newly Industrializing Asian countries (Kvangraven, 2021). However, the persistence of uneven development and increasing poverty trends has led to the re-emergence of academic discourse regarding the relevance of dependency theory in explaining today's world inequalities.

This essay argues that despite the changes in the international economic order, which led to a decline in the popularity of the dependency theory, the theory remains relevant in explaining economic and power relations between states in the twenty-first century globalised economy. The manifestation of the unequal and exploitative relationships between the Global North and Global South countries can be seen in many spheres, including economic, political, military, and ideology (Galtung, 1971). However, this essay will focus on the role of foreign aid by the International Monetary Fund in perpetuating the dependence of Global South countries. Besides increasing the debt profile of Global South countries, the conditions attached to international aid by western financial institutions are detrimental to the economy of the peripheries as it limits the decision-making capability of aid recipient countries. Consequently, this has led to the inability of the global south countries to take ownership of their national development schemes. The resultant effect is economic and political dependencies, which has further widened the developmental gap between the developed industrialised countries and the third world countries.

Nigeria, the world's eighth-largest recipient of foreign aid and second in Africa, is used as a case study because over forty per cent of the country's population are living below the poverty line, according to the Nigerian National Bureau of Statistics (Aderounmu et al., 2021). Furthermore, the figure is estimated to increase to forty-five per cent in the year 2022 by the World Bank (Irwin et al., 2021). The essay is structured into four parts. After the introduction, the underlying assumptions of the dependency theory were discussed. The third part explains the contemporary relevance of the theory using IMF-Nigeria relations as a case study. The final part gives the conclusion.

Theoretical Background

Dependency theory was developed as a framework for understanding the reasons for the divergence in the development level between wealthier and poorer nations. Historically, the theory was first used to explain the underdevelopment of Latin America and is associated with scholars such as Paul Prebisch and Hans Singer. Prebisch, in 1949 had argued that Latin America is underdeveloped because it relied on the exportation of primary commodities, which resulted in unequal trade terms between Latin American countries and developed western countries. However, several variants of the dependency theory have been used to explain underdevelopment in other world regions, such as Africa (Rodney, 1972; Amin, 1974) and Asia (Ohno, 1998). Dos Santos (1970:231) defines dependency as 'a situation in which the economy of certain countries is conditioned by' the development processes of other countries. The main argument of the dependency theory is that the incorporation of the 'satellites' into the world capitalist system dominated and controlled by the 'metropolis' has resulted in an unbalanced relationship that keeps the satellite countries dependent on the economies of the metropolis. The central assumptions of the theory include: (a) Underdevelopment, which is different from un-development, deals with the active extraction of resources from periphery countries for the benefit of the core countries (b) the world is polarised into two: the highly industrialised wealthy core nations and less industrialised poor peripheries (c) The periphery countries are poor because they are forcefully integrated into the international division of labour where they functioned as producers and suppliers of raw materials or repositories of cheap labour (d) Resource diversion is maintained through active collaborations of local elites and dominant states who share common interests (Namkoong, 1999).

The dependency theory has been subjected to several criticisms. Kvangraven (2021) argues that most of the criticisms of dependency theory are based on a superficial, incorrect, and incomplete understanding of the theory's core assumptions. Nevertheless, the critiques centre on its emphasis on external factors as causes of underdevelopment (Sanchez, 2003), economic reductionism (Grosfoguel, 2000), tautology and lack of precision (Lall, 1975). Kvangraven (2021) states that while some criticism, such as tautology, is valid in some cases, others represent minority perspectives within the dependency tradition. Furthermore, Amsden (2003) criticised the dependency theory for suggesting the impossibility of achieving development within the international capitalist framework and failing to account for the development of some traditional periphery countries. Critics posit that the rise of Hong Kong, Taiwan, South Korea, and Singapore's economies indicates the possibility of attaining economic progress under the integrated world economy (Sanchez, 2003). However, Kvangraven (2021) maintains that the economic transformation of these countries does not contradict the basic assumption of the dependency theory. As shall be argued in this essay, the dependency theory still offers a crucial explanatory power in explaining today's world inequalities despite its relegation in the field of development studies.

The International Monetary Fund and Dependency Theory in the 21st Century

The International Monetary Fund (IMF) was established at the Bretton Woods Conference in 1944 to manage the international monetary system after the Great Depression of the 1930s and the Second World War (Igwe, 2018). The initial function of the IMF was to maintain exchange rate stability by providing loans to countries experiencing temporary balance of payment crises (Ahmed, 2018). However, the role of the IMF has evolved to include structural reforms, domestic financial system stability, debt crisis management and pandemic response (Yoon, 2005). The financial aid of the IMF is tied to the implementation of certain economic policy conditions, which includes trade and financial liberalisation, deregulation, privatisation, currency devaluation and other market-liberalising reforms. These neo-liberal reforms, known as the Structural Adjustment Programme (SAP), aim to facilitate the expansion of capitalism and the integration of developing countries into the world capitalist economy. While the imposition of SAP as a precondition for obtaining financial assistance by the IMF has long been a subject of criticism, the logic behind these conditions and their contemporary effects conforms with the basic assumptions of the dependency theory. Whereas Nigeria adopted SAP in 1986, the IMF loan conditionalities have evolved in the 21st century to reflect the growing involvement of the IMF in low-income countries experiencing structural problems. The relationship between Nigeria and the IMF as a lender of last resort is exploitative, favouring the latter at the expense of the former. This has brought untold hardship to the Nigerian populace and has further widened the inequality gap between Nigeria and developed countries of the West.

The dependency theory can be used to explain Nigeria's reliance on foreign aid from the IMF. The motive behind aid issuance aligns with the dependency theory assumption of a polarised world between the 'Centre' and 'Periphery'. Although the IMF comprises 190 member states, the institution is controlled by industrialised western powers, as observed in its governing structure. For instance, the members of the IMF are hierarchically positioned according to the quota assigned to them based on their relative economic position in the world's economy. The IMF quota formula considers each country's Gross Domestic Product, openness, economic variability, and international reserves (Jha and Saggar, 2000). Similarly, the institution's decision-making procedure is by weighted voting, and the weight of each country's voting right reflects its quota (Mayer and Napel, 2020). This implies that decisions of the board primarily reflect the interests of economically developed countries that dominate world trade. Nigeria is a regular recipient of IMF financing and is currently among the heavily indebted countries in sub-Sahara Africa. A recent statistic by the Debt Management Office in Nigeria shows that the country owes the IMF $3.45 billion as of September 2020 (Ugbodaga, 2021). Nigeria's extreme dependence on loans from the IMF has worsened its debt crisis as it has resulted in a debt burden that has distorted the country's development. Due to the resources directed toward debt servicing, the debt crisis has restricted the country's capacity to invest in critical growth-sustaining infrastructure (Yusuf and Mohd, 2021). Consequently, Nigeria has found itself in a very "tightrope debt trap" with unsustainable external debt. From the dependency theory's perspective, the IMF's loans can be seen as a mechanism used by highly industrialised nations to maintain the dependence of the Periphery on their economies under the pretense of assisting in achieving economic development.

The IMF loan conditionalities and their effects have further made the dependency theory relevant in the Twenty-First Century. Besides reducing economic growth in Nigeria, the loan conditionalities infringe on the country's national sovereignty and have restricted the Nigerian government's capacity to manage the country's internal economic affairs. This is because the predetermined economic policies under the IMF packages have led to the failure of the Nigerian authority to govern its economy. Whereas the IMF often claims that the policies aim to facilitate economic development, these policies are imposed with little or no consultation with the Nigerian government and without regard for the country's economic circumstances (Eberlein, 2006). Moreover, the IMF fails to consider the unique causes of Nigeria's economic challenges by imposing the Structural Adjustment Programme (SAP), which is seen as a 'one-size-fits-all' approach. As an aid recipient, Nigeria lacks the power to independently decide what to do with the loans received from the IMF without input from the international financial institution, as the donor's interest remains paramount. Ikejiaku (2008) argues that while developing countries demand loans to improve their economic situation, the conditions attached to the loans often worsen the situation. For instance, the continual adoption of the SAP and other economic liberalisation policies in Nigeria as preconditions for assessing IMF loans has worsened its debt crisis and has resulted in socio-economic and political crises in Nigeria. As a result, the country's debt repayments can be seen as an instrument of neo-imperialism as it erodes the Nigerian government's power to meet its citizens' needs and make economic decisions that improve the welfare of its citizens (Dantani, 2019). Nigeria continues to adopt the IMF-imposed liberalisation packages despite limiting its ability to make crucial economic decisions that suit its local peculiarities.

Through its loan conditionalities and high-interest rates, the IMF has kept Nigeria in a vicious cycle of unending debt dependency. Whenever a country attempts to break away from this exploitative relationship, the IMF withdraws or delays loan disbursements until the conditions are entirely accepted. An example is the disbursement delay of the Second largest IMF COVID-19 emergency fund for Nigeria due to the disagreement between Nigeria and the IMF over the conditions attached (Amuno, 2020). The saying "he who pays the piper dictates the tunes" explains why the IMF have an enormous influence on the Nigerian economy. Nigeria is left with little or no choice but to accept the stringent loan conditions since the country is politically and economically weak in a world characterised by power. The adoption of the Structural Adjustment Programme has had adverse effects on Nigeria's development. The trade liberalisation policy, for instance, has encouraged the growth of foreign corporations in Nigeria and has opened the Nigerian economy to superior over-priced foreign products (Adenikinju and Chete, 2002). The prices of locally produced Nigerian goods are deliberately kept low and subjected to the forces of demand and supply. This has led to the inability of local industries to compete with their foreign counterparts leading to the eventual closure of most local industries. The situation has left Nigeria's economy at the mercy of transnational corporations who act as agents of Western countries to exploit human and natural resources. Specifically, multinational corporations such as Shell Petroleum Development Company (SPDC) in the Niger-Delta region of Nigeria have been a clog in the wheel of Nigeria's development. The activities of SPDC in the Niger Delta region have led to developmental challenges such as poverty, political instability, unemployment, civil unrest, and environmental degradation (Oluwaniyi, 2019). Furthermore, the participation of Nigeria in the Global Value Chains, 'where the different stages of the production process are located across different countries', has further given more room to multinational corporations, thereby reinforcing the core vs periphery pattern (Trienekens, 2012).

Another offshoot of the IMF-imposed Structural Adjustment Programme in Nigeria is the privatisation policy, with economic liberalisation as its primary focus. Privatisation entails the partial or outright sales of public enterprises to private individuals to make them more efficient and effective (Asaolu et al., 2005). The policy aims to reduce government spending to make money available for debt servicing and put Nigeria in a better position for more loan procurement (Ojo and Fajemisin, 2010). Privatisation has led to the sale of giant utilities in Nigeria, such as the National Electric Power Authority (NEPA), the Nigerian Telecommunication (NITEL), and the Nigerian Port Authority. While the privatisation policy has not resolved the problems facing public enterprises in Nigeria, the policy has worsened development challenges in Nigeria with adverse social effects such as inflation, unemployment, and corruption (Orji et al., 2014). The policy has contributed to the current inflation rate in Nigeria, which is about 15.63 per cent and its unemployment rate of about 33.3 per cent (Nwokoma, 2021; Izuaka, 2022). Besides, Eke et al. (2017) argue that the privatisation policy has led to the return of foreign expatriates, who had initially relinquished the companies to the Nigerian government after colonialism, as executive directors of the privatised companies. Consequently, this has compromised Nigeria's economic sovereignty and reasserted the dominance of the country's economy by foreigners due to the predominance of foreign investors in the privatised companies (Excellence-Oluye et al., 2019). This has perpetuated Nigeria's dependency on western-controlled foreign transnational corporations due to the inability of the Nigerian government to regulate and control the activities of foreign industries, such as the Shell Petroleum Development Company (Nwozor, 2020). As a result, adopting the privatisation policy in Nigeria has promoted foreign capitalist interests and provided opportunities for human and material resources exploitation (Odukoya, 2007).

This exploitation is sometimes made possible through the collaboration of Nigerian elites and the transnational corporations representing western interests in Nigeria. The Nigerian governing elites use state power to advance the interests of foreign capital since these interests coincide with their own. An example is an allegation by the African Commission on Human and Peoples' Rights of SPDC using its relationship with the Nigerian government to exploit the oil-rich Niger Delta (Ryerson, 2018). Despite the evidence of exploitation and illegal activities against SPDC leading to the underdevelopment of the Niger-Delta area, the Nigerian government continues to deploy state power to protect SPDC's economic interests. The resultant effect is the decreasing independence of the Nigerian economy and the increasing autonomy of transnational corporations in Nigeria. This further aligns with the dependency theory's assumption of the reciprocal relationship between political and economic elites in periphery and centre nations.

Conclusion

This essay has examined the relevance of the dependency theory in explaining today's global imbalances. Despite the decline in the popularity of the dependency theory, it can be used to explain the contemporary relationship between Nigeria and the IMF, which has reinforced the Nigerian economy's dependence on western countries. Through its loan conditionalities, the IMF has kept Nigeria in a debt cycle leading to the inability of Nigeria to govern its economy. This has kept Nigeria's economy underdeveloped and widened the inequality gap between Nigeria and Western Countries. To break away from this exploitative relationship, Nigeria must embrace industrialisation without external dependence.

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