ARTICLES

Foreign Trade and the Industrialization of the European Periphery in the XIXth Century

I.T. Berend
University of Budapest

G. Ranki
Historical Institute of the
Hungarian Academy of Sciences, Budapest

Analysis of foreign trade and the role of export sectors reveals both the manner and the degree to which the more backward regions became absorbed into the world economy, as well as giving some clearer picture of the nature of this process. As Marx said: 'Modern capitalism started with world trade and the world market'.[1] And in terms of the theories of comparative benefits and international specialisation, which were fundamental assumptions of XIXth century economic liberalism, it was foreign trade that provided the principal guarantee of harmonious development. In Marx's economic theory considerable emphasis was laid on the advantages of specialization and the benefits of foreign trade,[2] but the notion of a harmony of interests was firmly rejected and Marx pointed to the contradictions inherent in a unified world capitalist system and the unevenness of the levels of actual and possible integration within it.

More recently the economists of the New Left, in dealing

[1] KARL MARX, *Capital*, Vol. I, Progress Publishers, Moscow, 1977, p. 145.

[2] "It is... impossible to conceive a capitalist nation without foreign trade...", *Lenin Collected Works*, Vol. 3, Progress Publishers, Moscow, 1972, p. 65.

with the predicament of the Third World, have tended to reject both liberal economics and Marx's interpretation, arguing that the absorption of backward countries into the world market does nothing other than form a peripheral zone for the world economy. This perpetuates a wholly one-sided process of accumulation, in which foreign trade becomes the means whereby the economies of the backward, or belatedly developing, countries are exploited and subordinated.[3]

The situation of the backward regions of XIXth century Europe provides us with a particularly valuable historical case against which to test these theories. In fact, the case of the European periphery provides one of the very rare examples of the entry of relatively backward zones into the world market that can be studied historically. It allows us both to examine the impact of contact with the capitalist world economy on a backward region and to set this process in historical perspective. Although the volumes and the composition of the foreign trade of the countries we shall be examining varied, there can be no doubt that they all shared the features generally characteristic of the trade relations between underdeveloped and developed countries. In all these countries, the products exported were predominantly raw materials, and agricultural or food products. Their imports, in turn, were overwhelmingly manufactured goods.

What was the effect of this type of foreign trade on the more backward areas? In seeking to answer this question, the first thing we must bear in mind is that economic change and the growing specialization of labour in both the domestic and international contexts in the course of the XIXth century meant that foreign trade had a rate of growth that far surpassed industrial production and national income.

---

[3] See, among others, SAMIR AMIN, *L'accumulation à l'échelle mondiale*, Paris, 1970; A. G. FRANK, "Multilateral Merchandise Trade Inbalances and Uneven Economic Development", *The Journal of European Economic History*, Vol. 5, No. 2, 1976.

Paul Bairoch's latest calculations give the following picture:

Europe's exports as % of GNP

1830	4.0
1860	9.4
1890	12.6
1913	14.0

This meant that the value of exports — calculated at current prices — had jumped from 645 million dollars to 10,550 million dollars, that is, had grown twenty-six-fold. These data alone indicate that foreign trade was one of the chief means of expansion and chief indicators of the development of a capitalist world economy. Looking at the foreign trade figures, we might well regard the economic development of the countries of the European periphery as an example of demand-oriented growth; something that even Adam Smith had considered to be a very important factor of economic growth. A number of economists do consider the economic development of even the leading industrial nations to have been due primarily to the rapid growth of international trade. Such a view is mainly supported by data indicating that in England, too, it was in the so-called export sectors that production growth was the most rapid.[4]

Most historians dealing with the subject, however, argue that it was the growth of the domestic market that played a decisive role in the transformation of the leading industrial nations, all the more so because foreign trade — since it depends on certain determinate natural preconditions — is a function of a specific level of domestic production. And we could hardly account for the coincidence of demand and supply without examining other production factor trends, such as capital and labour, for instance.

---

[4] See, M.R. HARTWELL, "The Causes of the Industrial Revolution", *The Economic History Review*, 1969.

But the first question we must tackle in examining the reactions of the countries of the European periphery to those riding on the crest of the first wave of industrialization, is how they had come to enter the stream of international trade, a stream swelled by the industrial revolution. None of the countries of the periphery was cut off from European trade. The Italian city-states had been the centers of world trade in the Middle Ages; Spain and Portugal had dominated it in the XVIth century. The Balkan countries, on the other hand, had only been marginally involved in foreign trade; but involved they were, particularly between the XVIth and XVIIIth centuries. The volume of their trade, however, had been relatively small, not only because the volume of world trade during that period was generally smaller, but also because the Balkans were countries with low productivity, minimal surpluses, and no economic specialization. The goods exported were those typical of the countries of the periphery from the XVIth century on (the time when the exchange of agricultural products for mass industrial goods first started as did the relatively large-scale export of certain industrial raw materials).

The countries of the European periphery that we have been dealing with were, for the most part, exporters of agricultural products to Western Europe. Sweden and Russia also exported significant quantities of brass, iron and wood. However, prior to the XIXth century, their trade cannot, or can but barely, be considered examples of international specialization and as far as the domestic economies were concerned, foreign trade remained supplementary to rather than determinative of, economic development. The fragmentary, and by no means totally reliable, data at our disposal indicate that Russia's share of European trade in the 1830s was relatively large, nearly 8%. During the same period, the share of the Habsburg Monarchy was nearly 5%; of Spain, more than 2%; of Portugal, 1.5%; of Sweden, more than 1%. Portugal led the countries of Europe in terms of per capita foreign trade at this time, probably on account of her

intensive colonial trade, and her special trade relations with England.[5]

The English Industrial Revolution, and its diffusion throughout the western half of the continent created new conditions for European trade. The countries that were less developed but had close economic, political and cultural ties with Western Europe were all influenced by the new circumstances, though both the form this took varied from country to country as did the consequences. Everywhere, however, the way was being cleared for the spread of capitalism and economic specialization. It was this that was largely to determine the development of foreign trade throughout the XIXth century. This had two main features. The first was the growth of trade among the developed countries, though England continued to keep her lead over the rest; the reason here was the growing specialization that more developed production gave rise to, and the exploitation of the advantages each country derived from its own special factors of production. The second characteristic of XIXth century European trade was that the trade between the developed and the underdeveloped nations grew by leaps and bounds. The incentives here were the nearly insatiable need of the former for agricultural products and raw materials, and the fact that trade with the nearest underdeveloped agricultural nations — those of Europe — seemed the most natural way to satisfy these needs.

It was, thus, a natural first step in the world-wide expansion of capitalism to spread the fruits and demands of the industrial revolution to the European periphery. The countries of this area were not only easily accessible geographically, they were themselves anxious to establish contact with the industrialized

---

[5] In the mid-XVIIIth century, 15% of English exports were sold on the Portuguese market. Bairoch calculates that around 1800 Portugal accounted for 5-7% of all European exports-a percentage that seems to us exaggerated. See P. BAIROCH, *Commerce exterieur et developpement économique de l'Europe*, Paris, 1976, p. 266.

nations; and, with the socio-political changes taking place and the bourgeois institutional systems coming into being, they were becoming particularly well equipped to do so. The railways built with foreign investments provided the technical preconditions of their participation in world trade. Europe's backward countries thus became at once the market for Western Europe's growing store of industrial products, and the providers of its supplies of food and raw materials. At a time when the other continents were just starting to join in the new system of world trade initiated by the industrial revolution, except for a few special tropical products, it was mainly South-Eastern Europe, and to a certain degree Northern Europe, which functioned as a peripheral area to the industrial European centre.[6]

There can be no doubt, therefore, that the needs of the developed industrialized countries stimulated an export orientation in these hitherto self-sufficient, and consumption-oriented economies. The scale and consequences of this change, however, were functions of external and domestic factors combined. The geographical proximity of the European periphery — even though the revolution in transport in the XIXth century, the building of the railway network and the consequent drop in transportation costs was to make this a secondary consideration — was in itself a potential advantage. The scope and the effects of foreign trade, however, depended primarily on how far the developed countries' import demands coincided with what the backward countries had to offer. The exporters of crucially important raw materials of high demand elasticity had an advantage — in the given phase of development — over the exporters of agricultural

[6] It is not our task to give a detailed analysis of the ever growing literature dealing with the relationship of the centre and periphery. We would note, however, that one of its weakest points seems to be the failure to account adequately for the relationship between the developed and underdeveloped parts of Europe. Content to regard the underdeveloped parts of Europe as "semi-peripheral" or a belatedly developing adjuncts of the core, most authors avoid the question of why it was that these semi-peripheral areas could later become parts of the core.

products, whose demand elasticity was lower. The domestic repercussions of foreign trade were no less important. The process through which capitalism drew ever newer areas into the international economy, which reached Scandinavia before it did the Balkans, can, indeed, be regarded as being unified.[7] Nonetheless, we can hardly consider the relationship of the first industrialized and the second-comer countries simply in terms of a time-lag, nor see their functional relationships simply as an example of natural specialization based on comparative production costs.

As we have already mentioned in speaking of the pull of the centre, the XIXth century industrial revolution led to a phenomenal rise in import needs. The new machines were insatiable in their consumption of cotton, wool, coal and metals, and domestic agricultural production was unable to meet the needs of the growing industrial population, even with standards of living as low as they were. The industrialization of the centre, therefore, meant extraordinary opportunities for the more backward countries of Europe to increase their exports of agricultural goods and raw materials. Accordingly, agriculture became the chief and most common export branch of the countries of the periphery, these being the countries most directly affected by Western Europe's ever growing demand for imports of foodstuffs. Calculated at constant 1913 prices, Western Europe's per capita food imports grew from an annual $6.00 in 1872, to $12.80 in 1900, and to $13.90 by 1913[8] There was a corresponding growth in the exports of the European periphery: from Scandinavia, from Italy, from Greece and from Spain ever larger quantities of foodstuffs and raw materials were being shipped to England, Germany and Austria.

---

[7] Cf. S. POLLARD, "Industrialization and the European Economy", *The Economic History Review*, No. 4, 1973.

[8] CH. KINDLEBERGER, *Foreign Trade and National Economics*, New Haven, 1962.

TABLE 1

RATE OF EXPORT GROWTH,[9]
Annual Average, in %

Country	1860-80	1880-90	1890-1910	1860-1910
Hungary	—	1,6	3,6	2,7*
Bulgaria	—	9.4	3.3	5.3
Greece	2.1	6.7	2.9	3.3
Romania	—	2.1	3.9	3.3*
Serbia	—	1.9	4.2	3.4*
Russia	4.1	3.5	3.6	3.8
Sweden	4.9	3.7	3.2	4.0
Norway	3.3	1.8	3.8	3.2
Finland	6.6	1.6	5.5	5.1
Denmark	7.2	1.8	4.8	5.1
Italy	3.4	— 2.0	4.2	2.6
Spain	4.4	2.9	0.9	2.7
Portugal	2.0	0.5	2.1	1.7
Europe	3.2	1.3	3.2	2.8

* 1880-1910.

The first conclusion we can draw from Table 1 is that in most of the countries concerned, the rate of export growth was faster than the European average. The countries with the fastest growing export rates were Finland and Denmark, both with an annual growth rate of over 5 per cent. At the other pole, we find the countries of the Iberian Peninsula and Italy, with an export growth that was below the European average. These latter countries, then, were unable to join fully in the export boom induced by the Western-Europe center.

The value of the periphery's exports (Table 2) is another indication of the part they played in European trade.

[9] Calculations based on P. BAIROCH, "European Foreign Trade in the XIXth Century: The Development of the Value and Volume of Exports", *The Journal of European Economic History*, 1973. For the figures on Hungary, see SCOTT EDDIE, "Terms and Patterns of Hungarian Foreign Trade", *The Journal of Economic History*, June, 1977.

TABLE 2

THE PERIPHERY'S CONTRIBUTION TO EUROPEAN TRADE,[10] Value of Exports, in %

Country	1860	1890	1910
Hungary	—	4,4	3.8
Bulgaria	—	0.1	0.3
Greece	0.2	0.3	0.3
Romania	—	1.1	1.3
Serbia	—	0.2	0.2
Russia	5.6	8.3	8.9
Sweden	1.0	1.8	1.8
Norway	0.7	0.7	0.8
Finland	0.2	0.4	0.6
Denmark	0.5	1.0	1.5
Italy	5.1	3.8	4.5
Spain	2.3	3.4	2.2
Portugal	0.7	0.5	0.4

Here, too, the growth trend is obvious, though in a number of cases — as we shall see — the volume of trade was so small that even a faster rate of growth led to no essential change in the ratios. And here again, it is the countries of Southern Europe that show a declining trend. Portugal's contribution was ever smaller. In Spain we find signs of an export boom between 1860 and 1890, but the 20 years following were much less auspicious. For Italy, on the other hand, the period between 1860 and 1880 was the low point; the 1890s and the first decade of the century brought a gradual upswing.

All this indicates the period as a whole to have been one of

[10] Bairoch did not include Hungary in his calculations, and even when calculating the total volume of European foreign trade, he included the figures referring to the Monarchy as a whole. When we also take into consideration the trade that occurred between the two halves of the Monarchy, we obtain considerably higher figures for the Monarchy's share in European trade than those that he gave. Naturally, we included all of Hungary's foreign trade (i.e. the exports going to the Austrian half of the Monarchy) too.

relatively rapid export growth, with a corresponding rise in the demand for import goods, all of which served to accelerate the development of the economy and its capitalist transformation. Demonstrating the growth of exports and foreign trade, however, is by no means tantamount to establishing how far it contributed to economic development as a whole, or how far it led to the growth through savings and investments. Nor can the social ramifications of these questions be fully discussed. In this connection, we shall merely mention that in many countries the bourgeois transformation was at that time an incomplete, and still ongoing process; the power of the old ruling classes survived in a number of countries, as did the feudal system of big estates. All this served to concentrate a great deal of the income from exports in the hands of a disproportionately small sector of the population; and one which was by no means unequivocally committed to fostering capitalist values.

But to return to the economic aspects of the role of foreign trade, let us examine first of all the " axiom " that a foreign trade structure based on the export of raw materials is, in some sense, indicative of backwardness.[11] Just as common a point of departure is the assumption that in any exchange of food-stuffs and raw materials for manufactured goods, those selling the former are bound to be at a disadvantage, while those selling the latter are bound to profit from the deal. With terms of trade thus favouring the sellers of manufactured goods — the countries of the industrialized centre — the rich were bound to get richer, and the backward were bound to fall even farther behind. There can be no doubt that the XIXth century exchange of agricultural goods and raw materials for industrial products seemed to confirm this assumed regularity. For instance, the world market price for machine products was on average 16 per cent higher in 1900 than it had been in 1872, and rose another 31 per cent

[11] See SAMIR AMIN, *op. cit.*, p. 472.

by 1913. At the same time, grain prices, which had been rising in the third quarter of the XIXth century, fell drastically during the last quarter. Between 1855-64 and 1885-94, the price of wheat on the Copenhagen market fell by a third, the price of rye by nearly a quarter, the price of oats by 10 per cent, while barley prices more or less stagnated. Between 1872 and 1913, the price of wood fell by a sixth, as did the prices of both coal and cake. Raw material prices as a whole fell by an average of one-third between 1872 and 1900. (We must note, however, that it would be mistaken to consider this the inevitable result of some hard and fast "law". Grain prices, as we have seen, did rise for a time, and the price of animal products rose throughout the period.) The facts indicate that it was not *generally* true that trade terms were to the advantage of the countries of the centre, and disadvantageous for the countries of the periphery. Who benefited most was always the result of a combination of factors, the nature of the actual goods being imported and exported, and of actual world market price trends.

There can be no doubt, however, that between 1860 and 1914, a decisive half century from the point of view of the European periphery, England's terms of trade improved by 20%; that is, for the same volume of exports, England at the end of the period was getting a fifth more imports than she had fifty years earlier. Belgium was another country of the centre whose trade showed similar trends. (Yet even here, we should note that in the previous forty years between 1820 and 1860, when England's industrial monopoly was much more decisive, her terms of trade had followed an unfavourable trend, and, by 1860, England had to export 50% more than in 1820 for the same volume of import goods.[12]) For France and Germany, the prewar decades brought poor trade terms. Between 1880 and 1913, for instance, Germany's terms of trade deteriorated by no less than 20%.

[12] Br. Mitchell-Ph. Deane, *British Historical Statistics*, Cambridge, 1952, pp. 331-332.

(The fact that chemical product prices in 1900 were only 25% of 1872 prices, and by 1913 only 45% of the 1900 prices obviously had a great deal to do with this).

During the same period, the terms of trade of Sweden, an exporter of foodstuffs and raw materials, improved by 50%, and Denmark's too became more favourable; Norway's terms of trade, however, were damaged by the fall in revenues lost as a consequence of the fall in shipping costs. László Katus' calculations for Hungary indicate that the Monarchy's protectionist agricultural policy after the turn of the century brought similar improvements in her terms of trade.[13] However, the situation was quite different in the case of the countries of the Iberian Peninsula.

Certain general trends notwithstanding, therefore, a country's profits or losses from foreign trade were a function of its particular circumstances. A wheat exporting country was obviously worse off selling at world market prices than a country exporting meat and other animal products (Hungary, which sold her wheat to the Monarchy, was a special case); yet, both were "exporters of agricultural products". In the same way, machine exporters were at an advantage over exporters of chemical products — for which the terms of trade were unfavourable indeed — though both were cases of "industrial export".

All this indicates that the losses or gains sustained in the course of trade did not simply follow from a country's central or peripheral position, but were the consequence of the given country's particular production and export activity. Just what these were, however, was very much determined by a country's

---

[13] J. Pedersen-O. Pedersen, *An Analysis of Price Behaviour*, Copenhagen, 1938; W. Hoffmann, *Das Wachstum der deutschen Wirtschaft seit der Mitte des XIX. Jarhhunderts*, Berlin, 1965; C. Kindleberger, *The Terms of Trade*, New York, 1956; L. Katus, the chapter on economic development for Vol. VII of the 10-volume history of Hungary, Budapest, 1978; Scott Eddie, "The Terms and Patterns of Hungarian Foreign Trade 1882-1913", *The Journal of Economic History*, No. 2. 1977.

ability — or inability — to adapt to the demands of the market. This element of flexibility was, in fact, a crucial factor in determining whether foreign trade became the means of a country's subordination to a more developed economy, or whether conversely it became the incentive for the country itself to develop a more advanced economic structure. What was the case in any given country can be determined only through a complex analysis of all the factors of both the international and the internal economic system.[14] In this respect, we must agree with H. Mynt: " The traditional concept of « terms of trade » is no adequate measure of the advantages of international trade, any more than is the distribution of the income derived from it. We must also take into consideration the growth of economic activity, the changes in employment and level of technological knowhow induced by derivative investments, and all the other dynamic incentives originating from the growth of the country's volume of trade." [15]

That this is indeed so is demonstrated by the fact that a great many of the developed countries exported foodstuffs and raw materials in the initial phase of their development, and often

---

[14] This is why we find the concept of " dependence " as it is used in a great many works treating the relationship of core and periphery too general. The factors making for dependence are seen by D. Senghaas to be the following:

a) the inequalities already present at the take-off point,

b) the inequalities in structure (in raw materials, industry, trade; whether the export structure is one-sided or diversified),

c) the one-sided effects of financial successes,

d) unequal development opportunities.

D. SENGHAAS, *Imperialismus und strukturelle Gewalt. Analysen über abhängige Reproduktion*, Frankfurt, 1972, p. 23.

[15] H. MYINT: *An Interpretation of Economic Backwardness in the Economics of Underdevelopment*, Ed. by A.N. Agarwala - S.P. Singh Oxford, 1958. S. KUZNETS, (*Modern Economic Growth*, New Haven-London, 1966, p. 302) adds that dependence on foreign trade is a function not only of the foreign trade-national income ratio, but also of the relative weight of the key sectors, or rather, the degree to which foreign trade is diversified. The advantages to be derived from foreign trade depend to a great extent on how far the goods imported can be substituted for, and on the mobility of the productive factors invested in export goods.

much later too, in the effort to speed up capital accumulation. In a number of countries, then, it was the development of the raw-material based export sectors that laid the groundwork for the structural transformation of industry, and for an overall economic boom. The question, therefore, is not whether the export of foodstuffs and raw materials *in itself* leads to favourable or unfavourable terms of trade for a given area, but rather whether the countries of an area become trapped in the role of raw material exporters, or else are able to go on from there to build up a suitably developed economic structure.[16]

The ability to build up such a developed industrial structure, to respond to the Western stimulus, and to compete successfully with the more developed countries was, naturally, the result of the complex interaction of a number of factors. The wealth of a country's natural and geographic resources, its accessibility, its communications network, the antecedents of its proto-industrialization, its chances of capital accumulation and of adopting foreign technology, and last but not least, government policy, were all decisive factors of the response to the West.[17] However, we

---

[16] It is instructive, in this respect, to look at the export structure of Canada and the United States:

	Food, raw material		Food and semi-finished products		Industrial goods	
	USA	Canada	Canada	USA	USA	Canada
1850	68	—	—	19	13	—
1868-70 *	54	95		29	16	5
1914 **	42	87		33	26	13
1926-1929	31	47	30	24	45	23
1936-1939	23	32	40	25	52	28

* In USA 1861-1870; ** In USA 1901-1910.

In: CH. KINDLEBERGER: *Foreign Trade and National Economics*, New Haven, 1962. 41 and 43 p.

[17] For these as factors of European industrialization, see: S. POLLARD, "European Industrialization", *The Economic History Review*, No. 4, 1973.

must take care to distinguish within the too general category of foodstuffs and raw materials those products which were particularly conducive to the development of industrialization from those which were less likely to lead to technological improvements, or else did not do so at all. We find it very significant that it was the latter group of products that dominated the exports of those countries where the rate of export growth was less than, or only just on, the average. In Greece, for instance, agricultural products were the main export item. In 1887, 75% of Greece's exports consisted of agricultural primary products. We find little change by 1912, when agricultural products amounted to 78 per cent of all exports. But just what agricultural products were these? In 1887, the three most important export products were raisins (comprising 56.5% of all exports), wine (5.9%) and olives and olive oil (4.5%). By 1912, raisins had fallen to 28.8% of the total export; tobacco comprised 14.1% of the total export, olives and olive oil 14.9%, and wine, 11.8%. None of these products, however, though they needed some minimal processing before export (the tobacco had to be dried and graded, the oil pressed from the olives, the grapes dried for raisins, etc.) necessitated the development of a genuine food industry. The technology needed for processing tobacco, for instance, was minimal, for the tobacco factories of the period were closer to the traditional manufactories than to the industrial plants of today. Nor did the production of raisins, oil or wine set new industrial tasks.

Here, therefore, the dominant export branches were by no means organically related to the first possible steps to industrialization.

However, this was not the only impediment which prevented Greece's exports becoming the starting point of her economic prosperity and industrial transformation. No less important was the fact that the principal Greek exports tied in with no key sector of Western European economic development. Raisins, oil

and tobacco all had a low price elasticity of demand, and showed price trends that were less than favourable. The lack of economic impetus was reflected also in the import trends, aggravated by the fact that Greece needed to import foodstuffs as well. In 1887, cereals comprised 38% of her imports; in 1912, cereals accounted for 19%; sugar comprised a further 5%. Coal, too, was a significant import product, accounting for 12% of Greece's imports throughout the period. The relatively small volume of industrial imports, too, was in keeping with the conventional picture of a backward economy: the most important industrial imports were the textiles brought in for mass consumption; machinery and investment goods came to a minimal 1.5% of total imports. In the case of Greece, then, the annual export growth of 3% and the Greek economy's heavy export orientation — foreign trade contributed 26% of the national income — tended, rather, to conserve the given economic structure, rather than to renew or to transform it. In fact, there was only one industry which was directly related to foreign trade, the shipbuilding industry. A trading ship's capacity during these decades grew ten-fold; however, for lack of capital, technology and skilled labour, the really big, modern ships were unlikely to have been built in Greece.[18]

Portugal during these years presents an even sadder picture. For generations, Portugal had been one of England's chief trading partners: by the Methuen Agreement of the XVIIIth century, Portugal had become a free trade area for English textiles and in return Portuguese wines received significant tariff concessions in English ports. This trade of English textiles for Portuguese wines has provided the great example for free-trade and comparative-costs theoreticians since Ricardo. This is not the place to give a general critique of the comparative costs theory; the

---

[18] For the data, see B. Sterjos, Industrial Revolution in Greece (Hungarian) in Berend T. Iván-Ránki György: Gazdasági elmaradottság (Budapest, 1979.)

European, and particularly the Portuguese experience, however, goes a long way toward refuting it. For the growth in the demand for wine was very far from keeping pace with the growth in the demand for the more important raw products or consumer products of the period.

Bairoch attributes the stagnation of the Portuguese export sector to three factors: 1) the country's loss of the Brazilian trade monopoly; 2) the stagnation of wine exports; 3) the extraordinary one-sidedness of Portugal's exports (up to 1890, wines accounted for about 50% of her export trade).[19]

The slow growth of Portugal's foreign trade indicates first of all that what she had to offer did not sufficiently attract the new, dynamic world market. (Sardine exports did, however, grow by leaps and bounds after the turn of the century.[20]) This being so, Portugal had a constant balance of payments deficit. Her export industries, though they could hardly be called colonial in character, were in sectors that could only minimally stimulate her internal economic transformation. They also failed to contribute to the partial modernization of agriculture, or even temporarily to become the leading economic sector. When, after the turn of the century, the textile industry and textile exports did show an upward trend, this was due in no small part to the salutary influence of Portugal's colonial market.

S. Kuznets and W. Rostow [21] are absolutely right in saying that a more than average rapid growth rate is by no means all that is needed for a sector to become a "leading sector". We can speak of genuine transformation, of genuine "take-off", only when there emerges an economic sector or branch which is sufficiently widely and deeply embedded in the national eco-

---

[19] P. Bairoch, *op. cit.* (1976), p. 267. The wine exported in 1800 reached 200,000 hecto-liters, and was never higher until 1870.

[20] A. Castro, *A revolucao industrial em Portugal no seculo XIX*, Lisbon, 1972, p. 73.

[21] W. Rostow, "The Leading Sectors and the Takeoff", in *The Economics of Take-off into Sustained Growth*, London, 1963.

nomy as a whole to create a mass demand for labour, raw materials, and other industrial goods, and to stimulate the creation of further industries (either through narrow cross-sections, or through cutting investment costs). The criterion, in short, is to set off a general chain-reaction. It is not enough for export industries to start developing, or export production to start growing, to stimulate the economy's capitalist transformation. What is needed is a whole series of dynamic changes, in which the setting up of new substitution and complementary industries leads to the transformation of the whole of the country's economic structure.[22]

This being so, we can hardly be surprised to find that the huge foreign loans received failed to act as a stimulus to the Portuguese economy. For one thing, with her considerable import surplus, the interest payments and principal repayments that had to be made on the foreign loans became an ever heavier — practically insuperable — burden on the Portuguese economy.[23] For another, foreign investment was predominantly in sectors which had only minimal spin-off effect, and which produced no surplus value capable of supporting a new more developed economic structure such as might tilt the balance of assets and deficits in favour of the former. Thus, though foreign investments did accelerate economic development and expand the domestic market, they did so only slightly, and inadequately for industrialization. Portugal had the biggest per capita debt in Europe, a very low level of national income, and a very slowly changing economic structure. Trapped at a very incipient stage of development, her dependence on the developed industrial nations, particularly England, followed an almost classical pattern. Once the external impetus for change slowed down, it was more and more these distorting and inhibiting influences which came to pre-

[22] Cf. A. HIRSCHMANN, *Strategy of Economic Development*, Yale, 1958.

[23] A. CASTRO, *op. cit.*, p. 146. Between 1898 and 1910, the value imported was generally twice the value exported.

dominate. We have here what was, in fact, a typical, and by no means a unique situation for a country on the European periphery: foreign influences could accelerate to a degree, but could by no means solve the question of economic development. In Portugal's case, the preconditions determining the direction and effectiveness of foreign investment and of international trade relations were, for the most part, highly unfavourable. Neither the sectors invested in, nor their effect on the national income, were conducive to the transformation of the economy; and the country's economic structure, which determined both the investment and the export possibilities, was even less so.

This was true in spite of the indubitable growth in the volume of Portugal's exports, partly because the country's export sector was characterized by low productivity. Both export growth and foreign investments boosted trade rather than industry, and had only a minimal accelerator and multiplier effect on production. There was no significant growth in domestic demand, investment remained dispersed, capital profits tended to trickle out of the country, and the effectiveness of the impetus the economy had received proved, in the long run, to have been severely limited.[24]

It seems quite clear that the export sectors of the Balkan countries — which started to develop much later than those of Greece and Portugal, and showed extraordinary dynamism (between 1850 and 1913, Serbia's export grew from 4.7 million to 23.4 million dollars, and Romania's from 9.4 million to 135.9 million dollars, while Bulgaria's grew from 4.4 million dollars in 1870 to 36.9 million in 1913) — followed a line of development quite similar to that of the latter two countries. Five leading export items — all of them agricultural products — comprised between three-quarters to four-fifths of the Balkan exports

[24] For a theoretical treatment of the subject, see G.M. MEYER, "The Problem of Limited Economic Development", in AGARWALA SINGH (ed.), *The Economics of Underdevelopment*, New York, 1963.

throughout the period. The income received from these exports was only sufficient to increase agricultural production slightly, and to start building up a more modern, XIXth century infrastructure. Though a number of the Balkan countries, expecially Romania, also offered export products for which there was constantly a great demand on the European market and at prices that were far from being disadvantageous, nevertheless here, too, we can detect only the first steps toward capitalism during this period. However, the centre's need for exports did give a boost to these countries' previously stagnant economies, and accelerated their development. No radical structural transformation or rise in economic levels took place, however; for while the centre did serve as a stimulus to the economies of the countries of the periphery, the contradictions inherent in this kind of economic relationship were, in the case of the Balkans, particularly acute. In a number of cases, the pull of the centre did not operate simply through the automatic mechanism of the world market. Not infrequently, it took the administrative and political intervention of the great industrial powers to remove the legal and institutional impediments that tradition had placed in the way of progress. The domestic conditions, however, remained so rudimentary that it necessitated foreign help to build up even the minimal infrastructure that was achieved.

Under the circumstances, the limitations and distortions of the pattern of economic growth induced by the centre were particularly obvious. The developed countries not only insisted on exports of foodstuffs and raw materials, but also flooded the underdeveloped Balkan markets with their mass-produced industrial products. The small local handicraft industries that had been prosperous earlier were soon ruined by this kind of competition; no genuine big industrial development, however, came to take their place. Foreign trade, too, proved but a limited incentive to development at this time, though there was growth in branches of mining, and in the industrial processing of cer-

vanced to suit its own needs.[27] Thus, though foreign investment did encourage economic growth, this by no means compensated for the extraordinarily low proportion of the productive investments, nor for the disastrous competition that the industrial imports concomitant with capital import meant for the underdeveloped domestic industries.

The massive loans — which led to indebtedness which later resulting in the formal curbing of the economic sovereignty of these countries — did, in fact, initiate a certain process of economic transformation, but this never led to self-sustained economic growth, nor to the development of a modern economic structure. The change was that these economies, consolidated in their backwardness, now conformed to the needs of the developed economies. The centre thus proved to be only a very tendentious incentive to development. For one thing — as our data in the chapter on the Balkans indicate — many of the loans contracted were used to build up new armies and state apparatus. These largely unproductive investments were a great burden on the economy without bringing any direct profits.[28] What is more, given that there were no returns on these investments, increased taxation remained the only way to repay the debts.

This is well reflected in the growing importance of excise taxes in the national budget: 50% of Romania's national revenues, and 42% of Bulgaria's came from this source. Bulgarian peasants paid out 20% of their incomes in excise taxes.[29] All

---

[27] For a general treatment of the problem, see D. SENGHAAS, *op. cit.*, p. 19, as well as J. GALTUNG, *Eine strukturelle Theorie des Imperialismus*, in D. SENGHAAS: *Kritische Friedenforschung* Frankfurt, 1971. Naturally, we can hardly accept a view which explains the economic backwardness of the Balkan countries exclusively, or even primarily, in terms of their relationship to the developed ones.

[28] J. K. Galbraith aptly calls such investments of the newly independent states instances of "symbolic modernization". "Yet it will be clear that the economic well-being of the people is not much advanced by symbolic modernization." J.K. GALBRAITH, *Economic Development*, Boston, 1964, 51.

[29] A. MILWARD–S.B. SAUL, *The Development of the Economies of Continental Europe 1850–1914*. London, 1977, p. 461.

this, of course, served only to further enervate the already weak domestic market, and made it even more unlikely that the sectors benefitting from foreign investments could stimulate the creation of spin-off industries.[30]

Disregarding both the largely unproductively invested government loans, and the technology borrowed from the centre, the positive influence of the developed countries consisted mainly in stimulating agricultural exports, in helping to build up the Balkan railway networks, and in capital investments in certain extractive industries. (Except for Romanian oil after the turn of the century, the export of Balkan mineral resources was, at this time, negligible.)

In the absence of a spin-off, and with its share in world market as small as it was, the Balkan agricultural exports could not become the basis of general economic prosperity. (Romania was an exception in this respect, and supplied 8% of the world's wheat exports.)

The Balkan railway network — though far less extensive than the railways of Western Europe, or even those of Italy or Hungary — did, nevertheless, bring a certain unity to the national market, and served to connect it to the network of international trade. It did not, however, become the chief factor of economic growth as it had in Western Europe, or Italy, or Hungary, or even in Russia, where the economic processes induced by railway building became the basis of lasting economic prosperity.

Foreign investors, who held the lion's share in railway construction, naturally first of all wanted to see the international lines completed. Neither political nor strategic considerations dictated the construction of a network joining the various areas of the domestic market, nor did it promise to be particularly profitable to do so. The economic effects of foreign railway

[30] The interest due was very high as well. Romania had to pay an interest rate of 5 1/2 - 5 3/4%. Serbia and Bulgaria paid a rate of 6 1/2% in the early 1900s, and 5 1/2% just before the war. J. LAMPE, *op. cit.*, p. 76.

investment were rather one-sided and external, and essentially, railways became a factor of international specialization, and, as such, tended to help keep the area in its state of backwardness.[31]

Even Romanian oil exports suffered all the drawbacks typical of an export-oriented economy set in motion by foreign investments. The rapid growth of a few industries had relatively little effect on the development and transformation of the economy as a whole. Though the extractive industries prospered, this hardly influenced the processing industries. No adequate sectoral structure developed; investment goods were still largely imported, and even the crude oil that was extracted was, for the most part, processed abroad. Before the war, Romania was still importing refined oil. Unlike other countries, in Romania oil gave rise to no industrial development. Her industrial sectoral structure was only minimally altered by the increase in oil production, for the profits were either invested in expanding the extractive sector, or else were exported abroad.

Foreign capital investment did, then, speed up the process through which more developed production methods came to the Balkans; it served to increase productivity and to expand the market, and helped establish technologically more advanced factories and even some new industries. However, given the system of international specialization, and the absence of domestic incentives, this was not enough for a breakthrough. At the same time foreign investment also had aspects which tended to preserve the structural backwardness of these economies. The export sectors formed isolated "enclaves" within the economy as a whole,[32] and gave rise to a dualism which, though it differed from the classical colonial model, (where the industries set up with the help of foreign investments differed from the backward,

---

[31] IVÁN T. BEREND–GYÖRGY RÁNKI, *op. cit.* (1974).

[32] For the "enclave" type of export sectors in general, see TAMÁS SZENTES, *Az elmaradottság és a fejlettség dialektikája a tőkés világgazdaságban* (The dialectics of backwardness).

traditional sector to the point of conflict) was yet a sign that the Balkan economies too were " dual " economies.

Very similar to the Greek, Portuguese and Balkan developmental pattern that we have been examining was that of Spain. Spanish export growth was by no means rapid; it fell somewhat short of the European average, and, what was particularly interesting, showed a downward trend. While between 1860 and 1880 export growth was 4.4% per annun, in the 1880s it was only 2.9%, falling to only 0.9% by between 1890 and 1910. This decline in export growth was accompanied by changes in the structure of Spanish exports which occurred between 1850 and the turn of the century. In 1850, wine and brandy made up 28% of Spain's exports. Of the ten leading exports, nine were agricultural products, with lead being the only industrial raw material. At this time, Spain was even exporting wheat.[33] Initially, then, trade with the industrialized nations here too meant a growth in agricultural production. Western Europe's growing industrialization, however, demanded more and more metals and ores. From the 1870s on, it was from the countries of the European periphery that were already established trading partners that the West strove to satisfy its demand for raw material. Foreign capital, as we have seen, flowed into the periphery precisely to exploit its mineral wealth. It is, then, hardly surprising to find that by 1913 it was no longer wine, but metals that headed the list of Spanish exports, and accounted for 12%. Wine took second place, with ores (11.6%) coming a very close third. Among the ten leading exports we now also find textiles. Characteristic of the change in the export structure was the decline in grain exports. In fact, in the quarter of century preceding World War I Spain was more often an importer of grain. At the same time, fresh fruit became the fourth most important

[33] For the question of Spanish grain exports in the XIXth century, see N. Sanchez Albornoz, *Los crises de subsistencias de España en el siglo XIX*, Rosario, 1963.

export (8.4%), much of it coming from the abundant citrus plantations of Valencia.

Foreign capital investments in Spain were less diffused, therefore, concentrating as they did on producing for the world market. It was for this reason that they also served to induce a certain degree of autonomous investment. Spain's income from her exports was considerably higher than Portugal's. A great deal of foreign investment went into railways and mining, and a developed infrastructure was the result. The basis of an iron industry was also laid; and, with the help of native investments, an expanding domestic market and the existence of a traditional textile manufacture helped lay the basis of a strong, modern textile industry in Catalonia.[34] But even in Spain it was not primarily as a stimulus to the economy that foreign capital investment functioned. Foreign investment failed to lead to self-sustained economic growth, though there were some signs that it might. In the long run, however, the structural changes that did take place stopped short of a genuine transformation, and the principal characteristic of the economy remained foreign dependence.

Although Spain's entry into the world market had much in common with the analogous attempts of the previously discussed underdeveloped countries, the process was much more fraught with contradictions. Spain's was not merely a case of quantitative development within the framework of the old economic structure, but a case of genuine change in the factors that made for economic development and sustained it. Economic development started in response to external stimuli, but came to encompass certain elements indicative of self-sustained growth. The old economic structure underwent some change, but there was no radical transformation. The conflicting forces of stagnation

---

[34] H. Vasquez de Roda, "El processo de l'industrializacion en España", in *l'Industrialization en Europe*, Lyon, 1974.

and change waged a tug of war to determine the economy's future.

It was much the same process that took place in Italy and Hungary, but the changes which occurred were more decisive and far-reaching. Here, too, foreign demand provided the decisive impetus for change, with the export sectors doing a great deal to speed up economic development and to create a capitalist economy.

Between 1850 and 1913, Hungary's exports jumped from 30 million dollars to 368 million. In the 40 years preceding World War I, exports increased more than three-fold, which meant an annual growth of over 3%.

The chief export item was grain, which accounted for over 50% of all exports. Grain was a fortunate export item in all respects, at least to the turn of the century. The demand for it grew constantly as the western areas of the Austro-Hungarian Monarchy became more industrialized, and as per capita consumption increased. Prices — until the flood of cheap American grain to Europe brought them down — showed an upward trend, and long continued to be advantageous within the tariff wall protecting the Monarchy. Hungary — primarily because of her position within the Habsburg Monarchy — felt the pull of the Western economies much earlier than her neighbours, and was also able to respond to it about three decades earlier than they.

Naturally, the speed of this reaction had a great deal to do with the strength of the domestic factors of development. At the same time, this earlier start meant that Hungary fell relatively less far behind, and had a greater variety of options open to her as to the form her participation in world trade would take. The volume of Hungary's grain exports was such that it led to an extraordinarily fast growth rate in agricultural production: an annual average of 2 per cent during the half century of the Dual Monarchy. But it was not merely a matter of using new production techniques to increase productivity. As early as the

late 1860s, Hungary began to exploit the industrial potential of being an exporter of grain. Unlike a great many other agricultural products, grain was eminently suited for industrial processing; what was more, the conditions of its production, and the technological and manpower demands so generated promised to affect the country's economic structure as a whole. Although the manpower needs — and so the influence on social formation — of the milling industry were rather limited, the organic composition of capital that it required was high: in other words, it required large-scale technological investments, a great deal of capital and a skilled although not very large labour force. Though there were local milling industries in all the countries of Europe, Hungary was practically the only European country to be able to transform a part of her agricultural exports into exports of processed food products. All this indicates intense economic activity, and a responsiveness to the stimulus of the industrial revolution; it also indicates that certain structural changes were taking place in the country's economy.

Hungary's milling industry soon became an exporter on a world scale. Budapest's milling capacity was next only to that of Minneapolis, U.S.A. How can we account for this extraordinary boom? Primarily, because Hungary had the advantage of relative costs, not only in grain production but also in the milling industry, both because of cheaper raw materials, and also because of better technology and higher productivity. Though the machinery in the mills was partly of foreign import, during the critical phase of the boom it was a Hungarian invention, the roller mill, which guaranteed the country's milling industry its technological superiority, and its lead in quality and productivity.

This clearly was a case of an economy more ready to respond to external stimuli. Had Hungary not already had a certain technological expertise, she could hardly have achieved such superior productivity; nor can we doubt that there already was

a great deal of domestic capital accumulation, and the requisite capitalist stratum, since Hungary's milling industry was almost entirely the product of domestic investments. As a consequence, after the turn of the century, the ratio of wheat to flour in Hungary's exports was 33: 67, while it was 92: 8 in Romania, and 98: 2 in Russia.[35]

It was, however, not merely in becoming an exporter of foodstuffs rather than of unprocessed agricultural products that Hungary differed from the countries we have been examining. Just as initially the profits from the export of food products were invested in the milling industry, so the later capital accumulation fostered by the milling industry became a basis for industrialization, and of a partial transformation of the country's economic structure. This was reflected in the changes in Hungary's export structure, too: just before World War I, agricultural products no longer comprised 76–80% of all exports as they had earlier, (and continued to do in many neighbouring countries), but only about a half. The effects of the initial phase of industrialization were reflected in the import structure as well: while among exports it is the food and other industrial products that deserve our notice, we find that among imports, investment goods were beginning to compete with the prime import category, industrial consumer products. In Spain, for instance, more money was spent in 1850 on the import of cinnamon than on the import of machinery, and in 1913, too, machinery accounted for only 8.7% of all imports; in Hungary, on the other hand, machinery comprised 12% of all imports during the prewar boom years.[36]

The changeover from wheat exports to the export of flour and its consequences for capital accumulation and industrial and technological development therefore removed Hungary from the ranks of those peripheral countries where the pull of the centre

[35] Iván T. Berend-György Ránki, *op. cit.* (1974).

[36] Iván T. Berend-György Ránki, *Magyarország gyáripara 1900-1914* (Hungary's manufacturing industry 1900-1914), Budapest, 1955, pp. 190 ff.

induced only the accelerated development of sectors geared to satisfy the centre's own needs. This, however, was by no means enough for the radical transformation of the economic structure. We must also examine the peculiarities of foreign investment activity in Hungary in order to place her within the complicated system of interrelationships linking the industrial centre and the countries of the European periphery.

We have already had occasion to note the potential for inducing autonomous development inherent in the railway building, that accounted for least half of all foreign investment activity. We have also noted that its spin-off effect for both demand and supply was considerable — though not Western-European in scope — and that this, in some measure, acted as a multiplier. As early as the 1890s, there were signs of the effect of the active foreign capital invested, too. It is at this point that the intensive structural transformation of the Hungarian economy, industrialization, really takes place, and foreign capital investors continued to play a very important role in this process: about a third of all industrial shares were in the hands of foreign capitalist groups.

In Hungary foreign capital investment also drained the national income, and led to onesidedness, to distortions in the economic structure that developed. But, on balance, in Hungary's case, it was the impetus that foreign investment gave to economic development that must be considered the more significant: it got the economy over its period of stagnation, and helped start a period of lasting economic growth.[37] After the turn of the century — one of the most significant phases of Hungary's economic and industrial development — three-quarters of the nation's capital needs were satisfied from domestic sources, a telling

[37] See. L. KATUS, " A Kelet-Európai iparasodás és az önálló tökés fejlödés kérdéséhez " (On the problems of Eastern European industrialization and independent capitalist development), *Történelmi Szemle* (Historical Review), No. 1, 1976; and L. KATUS, *Economic Growth in Hungary during the Age of Dualism*, *Studia Historica*, 62, Budapest, 1970, p. 52.

indication of the fact that the autonomous economic forces at work in Hungary were by then sufficient to exclude the possibility of her economy becoming dependent on external factors.

Essentially, it was the domestic forces that enabled external influences have a spin-off effect. It was for this reason that these influences tended to reinforce the various — rather weak — domestic developmental trends. Hungary had a unique and intermediate position as a country which responded to the stimulus of Western European industrialization and was able also to adapt and take part in the processes initiated by industrialization, without, however, herself undergoing economic transformation. For a long time, she remained a country with a specialized and linked economy, while integrating as a dependent area in a world economy dominated by the developed centre.

Italy's development was similar in a number of respects. Initially, silk was Italy's primary export product, the traditional silk producers of Northern Italy contributing a third of all the country's export goods in the late 1860s. Sicilian sulphur and marble stood second and third on the export list. Ores, expecially iron ore, were next, with agricultural products, especially wine, olive oil, and fruits following.[38] As in Greece, Spain and Portugal, in Italy, too, the agricultural exports failed to stimulate the development of spin-off industries. Next to wine and olive oil, citrus fruit was the most significant export item. (In 1862, 454 quintals of citrus fruit were exported: in 1900, 2 million quintals, and in 1913, 4.3 million quintals.)[39] The technology of the age, however, did not permit the industrial processing of these products or the development of a food industry.

Quite a different picture is provided by the silk industry, built up as it was around already existing domestic industries

[38] G. Luzatto, *L'economia Italiana del 1861 el 1914*, Vol. 1, Milan, 1963, pp. 193-194.

[39] F.J. Coppa, "The Italian Tariff and the Conflict between Agriculture and Industry: The Commercial Policy of Liberal Italy", *The Journal of Economic History*, No. 4, 1970, pp. 755, 764.

and small manufactories. Significant domestic capital accumulation, urbanization, and more developed trade and manufacturing had laid the groundwork for the changes induced in Italy's foreign trade by contact with the developed industrial nations.

Though economic development during the decades following Unification was very slow, it soon became obvious that Italy had joined the world market through more than simply increasing her raw material exports, and that other factors besides a more active and more profitable foreign trade [40] were working to stimulate the economy. In fact, the structural transformation of the economy practically coincided with the growth of foreign trade and of the profits from it. Already by the turn of the century we can see signs of this: silk fabrics came increasingly to replace raw silk as an export product (by 1913, silk materials comprised 17% of all exports); the export of cotton yarn grew ten-fold, that of woollen cloth, twenty-fold.

Italy, then, very soon ceased to be dependent on imported textiles — an unmistakable sign of a backward economy — and became herself a textile exporter. More and more imported machinery improved the Italian textile industry, especially during the boom years of Italian heavy industry after the turn of the century.[41] Foreign trade, however, was a relatively less important factor of the Italian economy than of most of the more backward economies, exports accounting for only 11% of Italy's national income.[42] That this was indeed the case can be seen also from examining the role of foreign investments in the Italian economy. Foreign investments, as we have seen, were neither particularly big, nor of long duration. But foreign capital pro-

[40] This important point was made by J. VINER, (*The Economics of Development in the Economics of Underdevelopment*, New York, 1963). Though a number of his conclusions could be questioned, we can only wholeheartedly agree with him that the question of the benefits of foreign trade is not merely a matter of exchange rates.

[41] L. CAFAGNA, Italy 1830-1914, *The Fontana Economic History of Europe*, Vol. 4, Part 1, Glasgow, pp. 300 ff.

[42] A. MADISON, *Economic Growth in The West*, New York, 1964, p. 67.

moted Italy's economic development at crucial periods and in crucial areas, giving it the necessary boost at the critical moments. The fact, however, that Italy's quickly growing economy did not remain an export-oriented dependency of foreign capital was due, obviously, to her internal development, and her receptivity to external influences.

Here, then, the spin-off effects of foreign investment did not stop at the export-oriented extractive industries, but — with the internal preconditions as favorable as they were — could reinforce the internal forces promoting the overall development of all branches of the economy; under these circumstances, it was the positive, rather than the negative effects of foreign investment that predominated.

Obviously, this could not be the case wherever there was a traditional economy of the Balkan type. We could hardly make sense of Italy's development in the XIXth century if we overlook that before the XVIth century Italy had been in the vanguard of European social and economic development. Her extensive trade, her flourishing handicrafts, her advanced urbanization had far surpassed that of the rest of Europe. Although she later fell behind in all these respects and entered on a period of decline, exchanging her position of leadership for one that became ever more "semi-peripheral" in nature, nevertheless the industrial revolution found her — especially the northern areas — with domestic preconditions more conducive to development than any of the other countries we have been examining.

Naturally, the role and effect of external factors was nowhere confined solely to foreign trade. Foreign capital investments, as we have seen, were closely connected everywhere with whatever export sectors developed. Perhaps nowhere as inextricably, however, as in Russia. One of the chief factors of the great economic boom developing in Czarist Russia at the end of the century was the steady development of foreign trade, which grew at an annual 3.8% between 1860 and 1910, a rate faster than the

European average. The vastness of the country, the size of her population, the variety of her mineral wealth all led Russia, economically underdeveloped though she was, to play a great part in European trade. At that time, Russia was the world's major grain exporter, providing 25-33% of the world's wheat imports. Her iron, ore and cotton exports were also considerable, and by the turn of the century the oil discovered in the Caucasus was among her export products.[43]

Russia's export structure was typical of that of all underdeveloped countries. In spite of changing ratios, the overall predominance of agricultural products, ores and industrial raw materials in Russian exports as a whole hardly varied. There can be no doubt that these exports and the incentives they gave to change were major factors in initiating development. For the growth of the volume of foreign trade — particularly initially — was not only an incentive to capitalization, but also a means to it. The receipts from exports were what covered the growing volume of industrial imports, as well as the state's contribution to the building of the infrastructure. The surplus export receipts even helped counter the severe balance of payments deficit, and contributed to payments of both interest and principal on the extraordinarily large amount of foreign loans flowing into the country. Russia's foreign trade, thus, cannot be regarded as an economic factor passively adapting to the needs of the industrialized nations; a means of relegating the country to the role of a raw material supplier, as befitted underdeveloped areas in the international division of labour. It would be a grave misunderstanding of complex economic processes not to notice that it was economic, social and political factors which made exports the motor of a dynamically growing economy, and enabled the difficult process of Russia's economic transformation

[43] P.A. Hromow, Ekonomika Rosszii perioda promiislennogo kapitalizma, Moskva 1963, pp. 191 ff.; and P. Bairoch, *op. cit.*, p. 254.

to get going — though only with a great deal of foreign help. It was Russia's political importance on the international scene, her size, the unique wealth of her economic resources, the conditions expecially suiting her for industrialization — her great iron and coal deposits — and her vast, though underdeveloped domestic market which enabled her to find the area of international specialization that activated her economy as a whole, rather than limiting growth to the development of her export branches at some rate dictated by foreign markets. Export receipts, favourable price trends and exchange rates permitted income from the export sector to be pumped into other spheres of the economy, with a consequent expansion of the domestic market.

The building of a railway network made the development of the domestic market part and parcel of the country's entry into international trade. At the time of the greatest industrial boom, 47% of all foreign investments went, apart from the export sectors, into the development of an autonomous economy, and into the building of technologically advanced heavy industries. We can hardly begin to make sense of all this if we do not bear in mind that Russia, unlike the other socio-economically backward countries we have been looking at, was a great power with quite different potential. The very size of the empire, its powerful bureaucracy and military strength were all factors which served to promote the country's economic take-off. There can be no doubt that after the turn of the century, Russia — backward as she was, predominantly agricultural, and dependent on foreign capital — had nevertheless got started on the road to transforming the structure of her economy, and had entered the age of industrialization.

The Southern European, Hungarian and Russian developmental processes examined so far, although they differ from country to country, nevertheless reveal two characteristic and essentially dissimilar patterns. In the Balkans and on the Iberian Peninsula — although there was a substantial increase in foreign

trade, and foreign investments did introduce new elements into the economy — there was no real economic growth, nor any transformation of the economy. Contact with the countries of the developed centre, therefore, tended to reinforce the domestic socio-economic conditions and to retard and distort the development of these countries.

In the cases of Italy, Hungary, and Russia — despite all the real quantitative and qualitative differences in their development — foreign trade not only gave a boost to the economy, but there was also sufficient volume of foreign capital investment to accelerate economic development to such a degree that the independent internal forces of change could also become effective. Consequently, these economies began to be transformed through industrialization, though the rate at which this took place, the internal structure, and the level that was reached varied greatly from country to country. This pattern, too, shows elements of adaptation and subordination — differences in development between these regions and the centre, and the cycles of boom and recession made this inevitable — but there was no lack of internal development either, no exclusion from all the advantages of development, nor the unmitigated burden of its disadvantages.

The Scandinavian countries provide the third type of developmental pattern for the European periphery. In spite of their more developed social structure, bourgeois institutions, and somewhat more favourable economic position, these countries in the middle of the XIXth century must also be regarded as peripheral. That they were so is indicated by the lower level of development and of national income characteristic of the periphery, by their typically pre-industrial economic structure, as well by the complementary nature of their economic ties with the countries of the centre. Sweden's exports of 40-45,000 tons of iron a year, and her participation in world trade since the XVIIIth century [44]

[44] K. SAMUELSON, *From Great Power to Welfare State. 300 Years of Swedish Social Development*, London, 1968.

does not contradict this since we are not merely concerned with the volume of Sweden's exports, but also of their medium term and immediate economic and social consequences. But while the technological improvements of the industrial revolution and the advent of coke smelters diminished the role of Swedish iron on the world market, trade and manufacturing, merchants and craftsmen played a much more important part in the Scandinavian economy and in Scandinavian society than they did in other countries of the periphery.

It was after 1850 that British and Western European investments, and the new policy of free trade first stimulated Sweden to become a large-scale exporter of timber. Within 20 years, Sweden's timber exports rose from 0.4 million cubic meters to 1.8 million cubic meters. In the 1850s, 34% of all Swedish exports were timber and wood products; by the 1860s, the ratio was 44%, and did not change much to the turn of the century.[45]

Soon, however, there were incentives for development. To the extent that the Swedish iron industry was able to adapt the new British technology, and to the extent that British and Western European iron producers could not meet the ever growing iron needs of transport and industry, Sweden could still hope to become an exporter of iron again. In fact, iron became the second major stimulus to Sweden's economic growth. By the 1880s, iron products were accounting for 16% of all Swedish exports. Nevertheless, the export structure of the early 1880s was very close to the traditional pattern. 24% of all exports consisted of foodstuffs, 43% of raw materials, and 33% of industrial products. But it would be a grave mistake to forget that a foreign trade based on the export of iron and timber had the potential to greatly accelerate Sweden's capital accumulation,

---

[45] F. Fridlizius, "Sweden's Export 1850-1960", *Economy and History*, 1963; and E.F. Söderlund, "Short Term Economic Fluctuation and the Swedish Timber Industry", *The Journal of Economic History*, 1953. M. Flinn, "British Steel and Spanish Ore", *The Economic History Review* 1958, 8.

and consequently, the overall transformation of her economic structure. In this case, an increase in the volume of exports was bound to have more than just those consequences customary for a peripheral economy. While exports of wine or tropical fruits in whatever quantity could hardly lead to economic transformation, (the qualitative repercussions of quantitative growth being negligible in this case), and while wheat exports under optimal circumstances might initiate spin-off effects, the export of timber and iron had longterm and immediate effects on industry that were much quicker to appear. For one thing, the export even of unprocessed timber and iron ore gave rise to industrial activity which required a considerable labour force. For another, the very process of extraction — especially in a country with industrial traditions such as Sweden — was quick to lead to the development of primary processing. Given the favourable domestic preconditions, the booming world market soon initiated a process of industrial development in which timber processing, in combination with the nascent chemical industry, created the paper and cellulose industries that were to become major export sectors. Cellulose exports rose from an average of 7300 tons per annum between 1876 and 1880 to an annual 90,000 tons between 1891 and 1896; by 1900-1915, it was an annual 800,000 tons, and comprised three-quarters of all the cellulose produced. By 1911-1913, timber accounted for only 26% of all exports, paper and cellulose having risen to 17.6%.

Judging from the export structure, then, by the beginning of the XXth century Sweden had entered the ranks of the developed industrial nations. While in the more rudimentary Italian, Hungarian, and even Russian foreign trade structure it was the growing imports of machinery that provided the measure of responsiveness to the pull of the centre and of a certain degree of economic change, Sweden had already got much farther ahead, its specialised dairy and electrical machinery industries were also producing enough for large-scale exports. On the eve of

World War I, the machinery industry was producing 10% of Sweden's exports.[46]

Denmark's development was even more typical of that of a complementary economy, her export structure in the mid XIXth century being much more traditional, and remaining largely so until World War I. Denmark had no substantial store of mineral wealth, and no industrial traditions comparable to Sweden's. Danish export activity received its first impetus from her neighbours' needs for foodstuffs, since especially from the 1840s on there was no Danish food product that could not be sold on the neighbouring markets. It was largely in response to export demand that Denmark's agricultural production rose by 80% during the period under discussion. At this time, agricultural products comprised 80% of Denmark's exports, cereals, meat and milk products being the chief items.

When American grain flooded Europe's markets, however, Denmark cut back her grain production so far that she soon became an importer of cereals. She quickly and radically switched instead to livestock production. Initially, live pigs sold on the German market were the mainstay of this industry; later, when Germany withdrew behind a tariff wall, Denmark developed an impressive meat and food processing industry, a process in which inventions like the mechanical creamer played an essential part.

By the turn of the century, more than 90% of her exports consisted of agricultural and food products. Butter accounted for 47% of Denmark's exports, bacon and ham for 26%, and eggs for 8%. This extraordinarily intensive export activity, which was explicitly aimed at the English market (50-60% of it ended up on English breakfast tables) guaranteed Denmark

[46] Sweden had no need of protective tariffs for this; practically throughout the period she followed a free trade policy, hence primarily of complementary development, to transform her economic structure. For the data see L. JÖRBERG, in *Fontana Economic History of Europe*, vol. 4, The Nordic Countries, as well as K.G. HILDEBRAND, "Les traits caractéristiques de l'industrialisation des pays scandinaves", in *L'industrialisation en Europe*, Lyon, 1973.

favourable terms of trade throughout the period, and brought her very considerable export receipts. Per capita national income doubled during this critical period, indicating a significant expansion of the domestic market. The national income grew 3.3% *per annum* — thanks mostly to the 4.5% annual export growth — and made possible the beginnings of the process of import-substituting industrialization.[47]

This industrialization, however, exclusively served the domestic market. Even just before the War, industrial products accounted for only 6-9% of all Danish exports. Most of the consumer products Denmark needed, however, were produced domestically. Investment goods, on the other hand, continued to be imported. Denmark was a relatively backward agricultural country when she set out on the road to industrialization, but by the eve of World War I she had achieved a high national income purely through exporting processed agricultural products.

What we have here is a very special case of adaptation to the capitalist world economy, facilitated by Denmark's particular internal conditions and social and educational structure. Yet, Denmark's case also illustrates that — given adaptability to the fluctuations of the business cycle, export elasticity, a suitably high demand elasticity, and the development of spin-off effects — the relationship of the centre to the countries of the periphery in the mid-XIXth century was far from a closed, static system. The trend which emerged as dominant from the conflicting incentives and limitations to development that made up the centre's influence on the periphery was a function also of forces endogeneous to the particular peripheral country. Thus, for instance, the very effectiveness of the external factors, of the influence of the booming international market, was influenced by the flexibility with which a peripheral country exploited the opportunities its natural resources and geographic position presented.

---

[47] S.A. Hansen, *Økonomisk vaekst in Denmark*, Copenhagen, 1974.

Denmark was a country particularly sensitive to foreign trade. Her exports provided a quarter of the national income. And while in her foreign trade relations she was still functioning as a more developed peripheral country, on the domestic scene there were already trends towards urbanization and industrialization which predominated. Here, then, foreign trade did not forestall but rather tended to accelerate the transformation of the economic structure.

We find much the same situation in the case of Norway, though with a more modest overall development. Norway's exports were all mainly related to lumbering and fishing; her greatest export receipts, however, came from her predominant role as carrier in international trade.[48]

The Scandinavian countries undoubtedly seemed to confirm the classical thesis that the indirect effects of a growth in demand included changes in old attitudes, the removal of the social obstacles to development, and the overcoming of the bottlenecks impeding economic progress.[49] The impetus international demand gave the economy through foreign trade was also closely related to foreign investment activity. Although to varying degrees, foreign capital, as we have seen, played an important part in all the Scandinavian economies, without, however, distorting their development, or being the main factor in it — it took on the complementary role of providing a necessary initial push. In the long run, foreign investments had a positive overall effect on the distribution of investments, on the economic structure, on foreign trade relations, and on the balance of payments.

Scandinavia's economic development began when these countries adapted to the needs of the export market. Here, too, it was complementary economies that first developed. In the case of the Scandinavian countries, however, the subordination of the

---

[48] J. Bjerke, *Trends in the Norwegian Economy 1865-1960*, Oslo, 1966.

[49] A. Cairncross, *Factors in Economic Development*, London, 1962, Chapter 13.

'second comers' to the centre's economic needs did not become a fixed pattern. In fact it was rather the forces making for independence, and for a rapid and multilateral development and transformation of the economic structure that came to predominate. Foreign influence worked, in the final analysis, not to keep these countries within an exploited periphery, but rather to integrate them with the countries of the developed centre.

What has been said so far should show that the relationships binding the European centre to the countries of the European periphery in the XIXth century contained elements — and left scope for forms of potential development — that were highly contradictory in nature. It would be a great mistake to think of these relationships as being comparable to those of the developed countries of the XXth century and the Third World. The industrial revolution and the world economic system it gave rise to had a major role in inducing development in all backward regions of Europe. There can be no question, however, of the fact that the incentives to development were by no means of equal force; and at the same time an area's responsiveness to the stimuli received differed even more radically.

The first group of factors determining this responsiveness was the relative scarcity or abundance of a region's natural resources, and the relative facility with which its geographic position and topographic configuration permitted the building up of the transport system necessary for entering the world market. The ability to adopt foreign technology, the existence of export opportunities, the strength of the traditions of international trade, and the flexibility with which the economy could adapt to new demands were other factors determining a region's response to the pull of the centre.

Above and beyond this, and operating in the context of the factors already mentioned, there were also domestic factors which determined the possibility, degree, and kind of the response to the external stimuli: the level of development or degree of back-

wardness of the economy; the country's social structure, educational system, ideology and value system; its international political status; and the government policy directing the independent state. The moment of impact of the external stimuli was by no means a harmonious encounter of exogeneous and endogeneous forces; what we see was much more like a struggle, but it also implied interdependence. The reaction of the various regions of the European periphery to the challenge of the Industrial Revolution can be placed — to use H. Leibenstein's terminology — along a continuum ranging from " zero sum " (in the case of economies incapable of change, or capable only of becoming dependent colonial economies) to " positive sum " (in the case of economies where change resulted in the growth of the productive sectors and in the growth of the national income).[50] But the challenge of industrialization to the European periphery was not only earlier, but also quite different from the challenge to Africa and Asia. In Europe, development was not curbed and distorted through direct military and political control; there were opportunities for domestic decision-making, though only within the limits set by " structural force "; [51] this was of course, given further weight when necessary by appropriate political pressure exerted by the developed centre.

Nevertheless, the conclusions we can draw from the history of the European periphery permit no facile generalizations. Even in the worst case, we cannot, as we have seen, conclude that foreign capital activity led only to the stagnation of real wages, to the drawing off of a large slice of the national income, and to the conservation of domestic savings and of a backward do-

---

[50] H. LEIBENSTEIN, *Economic Backwardness and Economic Growth*, New York, 1957, pp. 188–189.

[51] It is John Galtung who uses the expression " structural force " (in *Kritische Friedenforschung*) D. Senghaas, ed., (Frankfurt 1971) to describe the economic relations of the developed and less developed nations. Our adoption of the term by no means implies total agreement with Galtung's theory.