

Reassessing Dependency Theory in the Age of Globalization and Deglobalization

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Research Question: To what extent does the validity of the Dependency Theory face challenges from current trends in globalization and deglobalization?

Abstract

This paper examines the relevance of dependency theory in the context of contemporary global economic trends, focusing on the contrasting trajectories of globalization and deglobalization. Rooted in the works of Raul Prebisch, Andre Gunder Frank, and Immanuel Wallerstein, dependency theory posits that peripheral nations remain structurally disadvantaged due to exploitative relationships with core nations. While historically significant, the theory's applicability today is increasingly questioned as developing countries like China benefit from globalization through initiatives such as the Belt and Road Initiative and WTO membership, enabling economic growth and strengthened international trade connections. Conversely, developed nations, including the USA, are adopting protectionist policies in response to economic and strategic vulnerabilities, reflecting a partial retreat from globalization. By analyzing these divergent trends, this study demonstrates that while dependency theory provides valuable insights into historical economic inequalities, it requires revision to account for the evolving dynamics of contemporary global trade and resource distribution.

Keywords: Dependency Theory, Globalization, Deglobalization, Core-Periphery Relations, China, USA

I. Introduction

Globalization is the process through which countries and different societies integrate and connect to trade and share goods and services (Newton, 2023). Several key factors have accelerated globalization over the years. Chief among them are technological advancements, which have largely overcome barriers to global connectivity. Additionally, the increase in foreign direct investment (FDI), particularly through multinational corporations (MNCs) and cross-border investments such as government bonds, has further deepened global economic integration. On the other hand, de-globalization isolates a country and its citizens, where trade or exchange of goods and services is restricted (Kornprobst and Wallace, 2021). The leading cause of deglobalization in countries is the desire for protectionism, as they aim to safeguard their domestic industries and become more independent, which can be achieved through tariffs, quotas, embargoes, and other measures.

To understand globalization and deglobalization, an Argentinian economist named Raul Perbsich wrote about a theory called “dependency theory” (Munro, 2018). This discusses how the core economies (developed countries) perpetuate a vicious cycle of poverty in peripheral countries (developing countries) by continuously exploiting the factors of production in these countries. This would imply that developed nations would benefit more from integrating into the global economy than developing nations. However, in today's world, while globalization appears to be retreating in developed countries (e.g., the U.S. and the U.K.), countries like China and India, often identified as developing nations, have witnessed and continue to witness great success by further integrating into the global economy. This leads to the research question: **To what extent does the validity of the Dependency Theory face challenges from current trends in globalization and deglobalization?**

This research paper argues that while Dependency Theory has historically explained economic disparities between developed and developing countries, today's economic trends, especially the rise of emerging economies benefiting from globalization, challenge its ongoing relevance, even if it may hold partial validity in specific contexts.

II. Literature Review

To understand globalisation, it is vital to analyse the origins, history, and evolution of trade.

During the 16th and 18th centuries, mercantilism experienced a surge. Mercantilism emphasized the extensive export of goods and services while reducing imports through tariffs, in an effort to increase domestic employment, enhance national power in terms of trade, and improve cash inflow (Kenton, 2024b). A prime example of a

mercantilist outlook on trade was the British Navigation Acts. For this act to be successful, they implemented three laws: (1) Only British or colonial ships should engage in trade in the colonies, (2) Certain colonial commodities, such as wool and sugar, could only be sold in England, not directly to other countries, (3) All foreign goods intended for sale in the colonies were required to be shipped through London. These three rules contributed to the rise in global trade, the rise of England's power, and the emergence of capitalism. Rule one states that only British ships were allowed to trade in the colonies. The second rule resulted in an ample supply of raw materials for England; therefore, goods could be exported to other countries at premium pricing. The third rule generated import revenues through import duties. Another key example of mercantilism in practice within the British Empire was the Transatlantic Trade, particularly the Triangular Trade, which contributed to imperialism by enabling powerful European nations to exploit weaker regions. Enslaved Africans, primarily from West Africa, were forcibly transported to European colonies in the Americas, where they worked on plantations producing cash crops such as sugar, cotton, and tobacco. These goods were then shipped back to Europe, generating immense wealth for European powers (BBC, 2024). Such economic motivations strongly fueled the expansion of imperialism.

The shift from mercantilist thought to free trade ideas happened gradually, mainly in the 18th and 19th centuries. Free trade is a policy in which the government does not discriminate against imports or interfere with exports by applying import tariffs or export subsidies. Adam Smith is known as the father of modern economics. He also published a book named "The Wealth of Nations." It described how the industrialized capitalist system was upending the mercantilist system. Adam Smith believed it was best for the economy if the government didn't intervene in the market and allow it to operate as a "free market"; this would enable the economy to prosper more, as there would be no government intervention through taxes like tariffs. This would encourage MNCs to invest and establish their factories in the market, creating competition between domestic industries and MNCs, which would lead to the production of high-quality products, lower prices, and improved customer service, ultimately benefiting the economy and promoting economic growth. It was also deemed vital for innovation.

At the same time that free trade was introduced, the concept of comparative advantage emerged. Comparative advantage enables countries to benefit from trading goods and services in which they have a competitive advantage and purchasing items in which they are less skilled. A similar situation occurred around 1817 between England and Portugal, which David Ricardo noted. He demonstrated how England and Portugal produced cloth and wine, with England specializing in cloth production and Portugal in wine production. While these countries produced goods and services in which they were not specialized, they incurred high production costs, resulting in a budget deficit. This led countries to stop producing goods and services inefficiently. Ultimately, this led both countries to produce efficient goods and import inefficient ones (Hayes, 2025).

As we move forward, time dates back to 1873, when the long depression occurred. A crash in the European stock exchange decreased investor confidence, prompting them to stop investing and sell off their American assets, including railroad stocks and bonds. Bonds were the primary means by which American companies obtained funding for their railroad projects. Now, there was a lower cash inflow and higher borrowing costs, which led to the bankruptcy of these American companies. One of the largest banks in America, Jay Cooke & Company, went bankrupt after investing a significant amount of money in railroads. Citizens became scared that they would not get their money back, and so were reluctant to run to other banks to retrieve it, which ultimately led to the bank going bankrupt. International trade declined significantly due to a loss of confidence among countries and consumers. Countries began using protectionist policies, such as tariffs and quotas, to safeguard their economies. This made the recession even worse (Terrell, 2017).

Following this, World War I broke out after the assassination of Archduke Franz Ferdinand in 1914. His death set off a chain reaction of alliances and rivalries, drawing multiple nations into conflict and marking the beginning of what became known as the "Great War." In the aftermath of the war, trust between countries eroded, prompting many nations to turn inward and adopt policies of de-globalization. In the United States, this was reflected in the Smoot-Hawley Tariff Act (1930), which sharply raised import duties to protect domestic businesses and farmers. At the same time, global overproduction led to a decline in commodity prices, resulting in significant losses for American farmers. As a result, the United States pursued an increasingly protectionist trade policy.

Following the disturbances caused by World War I, core-periphery countries sought peace and established an organization aimed at promoting stability in the global economy and relations.

The creation of the League of Nations marked a new era of multilateral cooperation. The Covenant bound its Member States to try to settle their disputes peacefully. By joining the League, Member States also renounced secret diplomacy, committed to reducing their armaments, and agreed to comply with international law. Each state pledged to respect the territorial integrity and political independence of all members of the League. By establishing a bond of solidarity between Member States, the League was considered the first attempt to build a collective security system. This principle relied on a simple idea: an aggressor against any Member State should be considered an aggressor against all the other Member States (Britannica, 2020).

However, the League of Nations soon began to face failures in its operations. The League lacked its own armed force and depended on the Great Powers to enforce its resolutions, uphold its economic sanctions, and provide an army when needed. However, the Great Powers were often reluctant to do so. Sanctions could hurt League members, so they were reluctant to comply. During the Second Italo-Abyssinian War, when the League accused Italian soldiers of targeting Red Cross medical tents, Benito Mussolini responded that “the League is very well when sparrows shout, but no good at all when eagles fall out.” After several notable successes and some early failures in the 1920s, the League ultimately proved incapable of preventing aggression by the Axis powers in the 1930s. Germany, Japan, Italy, Spain, and others withdrew from the League. The onset of the Second World War demonstrated that the League had failed in its primary purpose of preventing any future world war. The League lasted for 26 years; the United Nations (UN) replaced it after the end of the Second World War in April 1946 and inherited several agencies and organizations founded by the League.

To restore trade and economic well-being after World War II, several key international institutions were established. The Bretton Woods Conference, held in July 1944 and attended by 44 countries, led to the creation of the International Monetary Fund (IMF) and the World Bank. The IMF was designed to ensure exchange rate stability, prevent competitive devaluations, and promote international monetary cooperation. It also encouraged countries to open their economies and facilitate trade through foreign investment and financial support (Kenton, 2024a). The World Bank, in turn, was established to provide loans and financial assistance to developing countries, enabling them to rebuild, invest in infrastructure, and stimulate economic growth, thereby supporting long-term global trade (Kenton, 2022). Alongside these institutions, the General Agreement on Tariffs and Trade (GATT) was established in 1947 to reduce tariff barriers and promote freer international trade. Decades later, during the Uruguay Round negotiations (1987–1994), the GATT was restructured and expanded, culminating in the formation of the World Trade Organization (WTO) in 1995 under the Marrakesh Agreement (Anderson, 2023). The WTO became the formal institution overseeing global trade rules to reduce barriers and encourage countries to adopt free trade policies. The combined efforts of the IMF, World Bank, and WTO (formerly GATT) provided a framework for economic stability, reconstruction, and the expansion of international trade in the post-war period.

By the 1970s and 1980s, technological advances such as containerized shipping and the expansion of jet travel further reduced distances. Companies grew into true multinationals, establishing production facilities and supply chains across multiple countries. This period also saw financial globalization take off – capital was increasingly mobile, with cross-border investment growing rapidly. Many developing countries sought foreign investment and began export-oriented growth strategies (notably the East Asian “Tiger” economies like South Korea and Taiwan). The Cold War (mid-20th-century geopolitical tension) somewhat divided the world into separate economic blocs (a capitalist bloc and a communist bloc). Still, by the end of the Cold War in the early 1990s, a wave of market liberalization swept through formerly closed economies.

The second phase of globalization was characterized by institutionalized global cooperation and a surge in trade. Worldwide GDP and trade grew hand-in-hand. The world also became more financially intertwined – for instance, by the 1980s, foreign exchange trading and cross-border capital flows had skyrocketed. This phase laid the groundwork for the modern global economy – creating rules that persist today and initiating the high level of economic integration we now experience (Ortiz-Ospina, Beltekian, and Roser, 2024). However, it also had its setbacks (such as periodic debt crises in developing countries and rising concerns about the unequal distribution of gains).

Dependency Theory

Dependency Theory argues that the underdevelopment of certain nations is a direct result of their exploitation by wealthy, developed nations. Resources flow from poor “periphery” countries to rich “core” countries, enriching the latter at the expense of the former. Dependency theory originated in the late 1950s and gained prominence during the 1960s and 1970s through the contributions of theorists such as Raúl Prebisch and Andre Gunder Frank. Immanuel Wallerstein’s World-Systems Theory, developed in the 1970s, further expanded on similar ideas about global inequality and the core–periphery divide. Each of these has been expanded on below.

Raúl Prebisch was one of the earliest contributors to dependency theory, most notably through the Prebisch-Singer hypothesis. This hypothesis argued that the terms of trade for primary goods (such as agricultural and raw material exports) decline over time relative to manufactured goods. For peripheral nations reliant on exporting primary products, this structural imbalance meant declining revenues and persistent underdevelopment. Prebisch emphasized that this unequal exchange locked poorer countries into dependency on industrialized nations. To counter this, he advocated for import substitution industrialization (ISI), whereby countries would produce manufactured goods domestically rather than relying on imports, thereby reducing their vulnerability to external shocks. He also emphasized the importance of regional integration among developing countries, which would enable them to pool resources, expand markets, and promote industrialization. Prebisch thus laid the economic foundation of dependency theory by highlighting structural inequalities in global trade.

Andre Gunder Frank expanded dependency theory by introducing the idea of the “development of underdevelopment.” He argued that underdevelopment was not a natural or original condition of peripheral nations but rather the direct result of their integration into the global capitalist system (Political Science Solution, 2023). Through colonization and subsequent economic ties, wealth was systematically extracted from the periphery to enrich the core. This process, according to Frank, created a metropolis-satellite relationship, in which peripheral nations (the satellites) were structurally dependent on core nations (the metropolises). He emphasized that economic growth in the core actively produced underdevelopment in the periphery, locking poorer nations into cycles of exploitation. Unlike modernization theorists, Frank rejected the idea that peripheral nations would simply “catch up” with development over time; instead, he argued that meaningful development required breaking away from exploitative global linkages.

Immanuel Wallerstein built on dependency ideas but widened the scope with his World-Systems Theory. While dependency theorists focused on a binary division of core and periphery, Wallerstein introduced a three-tier structure: core, semi-periphery, and periphery. This model explained not only the exploitation of peripheral nations by core powers but also how semi-peripheral nations (such as emerging economies) acted as intermediaries, sharing features of both. World-Systems Theory provided a macro-historical perspective, tracing global inequality back to the expansion of the capitalist world economy in the 16th century and the legacy of colonialism. According to Wallerstein, this system entrenches uneven development: core nations dominate advanced production and technology, while periphery nations remain dependent on resource exports and cheap labor. Although influential, critics argue that his theory is overly economically deterministic, overlooking cultural, political, and domestic factors that also shape development. Nevertheless, Wallerstein broadened dependency theory into a global framework that continues to inform discussions of inequality, globalization, and shifting dynamics, as seen in the rise of countries like China and India.

Case Studies

USA

The USA is recognized as a core nation that has immensely benefited from globalization, thanks to its extensive trade operations with various countries and participation in key trade projects, such as the WTO, NAFTA, and the Marshall Plan. Now, at a global level, the USA has decided to pivot from involvement in globalization and move to implementing more protectionist policies, and consequently pursue deglobalization. This reaction from the country challenges the assumption of dependency theory that core nations will also benefit from the periphery nations and, therefore, would want to continue engaging in globalization.

Evidence of recent policies used by the USA takes a more deglobalized stance, including:

Firstly, in the Trump era (2018), the USA imposed taxes on China's goods and services, reaching up to 350 billion dollars. This was done to prevent a deficit on the current account balance, increase employment, and prevent the technological transfer from the USA to China. This resulted in a rise in the prices of imported goods and services, which increased the cost of production, harmed farmers, manufacturers, and consumers, and lowered aggregate demand (Dadush, 2023). Reducing reliance on China challenged the dependency theory, as countries like the USA, which benefited from comparative advantage by maximizing efficiencies, showed the risks involved in global supply chains and how globalization can lead to a threat to a core-periphery nation (Goldberg and Reed, 2023).

Secondly, the USA's withdrawal from the TPP – a 12-nation agreement aimed at lowering tariffs, setting common trade rules, and increasing economic influence in the Asia Pacific region (McBride, Chatzky, and Siripurapu, 2021). The USA withdrew from the agreement because it believed globalization would threaten the US economy, leading to increased unemployment and potentially damaging its sovereignty. This is because multinational corporations might not adhere to domestic rules, instead relying on international trade agreements.

This challenges the dependency theory because it is evidence of a core nation intentionally avoiding globalization to increase its domestic dependence on goods and services.

CHINA

For a very long time, China was classified as a periphery nation; however, the dynamics of the country and global trade changed significantly when it became a part of the WTO and started investing in globalization. As of today, China has become the world's second-largest economy, thanks to its trade liberalization efforts.

Disproving the assumptions of dependency theory that peripheral nations do not benefit from the core periphery nations through trade.

In 2001, China had the opportunity to join the WTO, which significantly altered the country's destiny by reshaping its global engagement. It began with a reduction in tariffs, opening up to new markets, and adhering to international trade norms (World Trade Organization, 2021). This benefited China tremendously, as it resulted in a significant increase in exports from \$266 billion in 2001 to \$3.3 trillion in 2022, which led to a current account balance surplus (China Power, 2019). This gave new hope to citizens in China to expand and boost their economy. This disproves the assumption of dependency theory, as China benefits immensely, reaching a level that surpasses that of core nations in terms of economy.

The second initiative, which China undertook, was the Belt and Road Initiative, implemented by 2013, which built infrastructure in over 130 countries to create strong connections in terms of trade and economic presence. This would increase exports and also increase the core nations' dependency on China (World Bank Group, 2018). The other goals include energy security, aiming to reduce dependence on the USA for diverse energy sources and gain some power in the global south.

This disproves the dependency theory assumption, as in this instance, China is taking the lead in trade leadership. Furthermore, it is also acting as a core nation to less economically developed countries, such as those in Africa.

III. Conclusion

As explored in this paper, the history of international trade is complex and marked by both ups and downs, yet it remains vital to understanding the roots of and current state of globalization. Globalization began with "Mercantilism," a concept where nations believed that having the most gold in their current account balance represented the country's power in terms of money. Thus, there was an incentive to export goods and services to other countries. While nations were still cautious in their trading practices, the concept of free trade emerged in the 18th century, characterized by the absence of trade barriers between countries, which led to a higher rate of globalization. Furthermore, there was a discussion of comparative advantage, where one country recognizes its specializations and focuses its major effort on producing that particular good or service, which presented a strong case for free trade. However, while trade was picking up some traction, the outbreak of World War I completely eroded the confidence and trust between nations. To worsen matters further, the Great Depression also led to complete stagnation in trade liberalization. This resulted in countries turning inwards and applying protectionist policies (tariffs, quotas, etc). To control and manage all disturbances in the global atmosphere, the League of Nations was established. Following World War II, the introduction of the IMF, World Bank, GATT, and other organizations helped foster rules-based international trade. This helped promote globalization, mainly supported by the increase in digital technologies, which further led to hyper-globalization.

The dependency theory, developed by theorists such as Raul Prebisch, Andre Gunder Frank, and Immanuel Wallerstein, drew upon ideas and thoughts that these theorists initially formulated. Raul Prebisch argued that the trade of primary goods tends to decline over time, leading to a shift toward the trade of manufactured goods. This shift creates trade imbalances, causing peripheral nations to experience structural disadvantages and underdevelopment. Furthermore, Andre Gunder Frank demonstrated that countries were not inherently poor; rather, colonialism transformed them into peripheral nations, as the core extracted both financial and natural resources, leaving these economies disrupted upon decolonization. Lastly, Immanuel Wallerstein's world-systems theory proposed a three-tier classification: core, semi-periphery, and periphery. This framework illustrated how semi-peripheral nations exhibited characteristics of both core and peripheral economies, representing emerging economies that straddled the features of both dominant and subordinate nations.

In the context of globalization, dependency theory posits that less economically developed and developing countries are more likely to be exploited by developed nations, particularly for their natural resources and labor. However, since this theory was developed decades ago in a very different economic and international context, its applicability today warrants careful examination. Accordingly, this research paper conducted two case studies: one on China, a periphery nation, and one on the USA, a core nation. Countries like China, classified as developing, have nonetheless benefited from globalization. Initiatives such as the Belt and Road Initiative and membership in the WTO have strengthened China's infrastructure, economic connections, and trade relations, helping it maintain a strong current account surplus and enabling its economy to grow into the world's second-largest. Conversely, developed nations like the USA are increasingly adopting protectionist policies, reducing reliance on foreign countries.

To answer the research question, the current trend toward deglobalization among developed nations and continued globalization among developing nations does challenge the validity of dependency theory in explaining today's global economic relations. Moving forward, it is essential to revisit and update dependency theory to reflect contemporary global economic dynamics and resource distribution.

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