Honduras: Lack of Economic Freedom or Victim of Global Economic System? Bridging the Gap Between Dependency Theory and Neoliberal Economic Theory in Developing Countries

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Abstract. The economic history of developing economies is replete with unfair advantages for developed economies, where the benefits they reap are scarce in comparison to these. Such is the argument of Dependency Theorists, founded in truth, but failing to highlight the positive benefits of the neoliberal economic system. In contrast, Neoliberals point out the lack of economic freedom, infrastructure, and levels of corruption in developing economies which inhibit the benefits of neoliberal policies from flourishing. Hence, both theories neglect the valid points made by each other, which produces an either-or argument, which cannot bolster the economy of developing countries. Thus, this argument of this paper is two-fold. First focusing on the economic history of developing countries and how this has allowed for Marxists ideologies to persist, specifically in Latin America. Secondly, this paper will concentrate on the changing nature of multinational corporations and how foreign direct investment is essential to boost the economy of developing economies. This paper focuses on Honduras, as its history and its economy present it as a good example of the struggles that developing economies face. Thus, the aim of this paper is to show that the policies pursued by developing economies are influenced by their economic history, where the benefits of neoliberalism, although many, are exhibited over the long term or not enough to positively impact the severe social disparities that are all too common in developing economies.

Introduction

The adverse effect that colonialism has had on states that are now classified as "developing" or "Third World" is an undisputed fact. In analyzing the economies of developing countries, dependency theorists focus on the negative and exploitative effects that the global economic system has on developing countries (Ferraro, 2008; Regan, 1982), while neoliberals concentrate on the increased benefits of foreign direct investment, such as transfer of skills and technology (Ahiakpor, 2010; Noorbakhsh & Paloni, 2001). Herein lies the issue. Both theories neglect the valid points made by the other, and in doing so, fail to provide an economic system that can lead to growth in developing countries. In such a complex and integrated global economic system, an either/or argument, in which one theory solely provides the solution, is not an answer. This paper will attempt to bridge the gap between the two theories, arguing that the asymmetry in the neoliberal economic system leads to some countries having an economic advantage and, to a certain extent, the ability to influence the economies of less developed countries. Further elaborating on this argument, the paper will focus on the benefits of foreign direct investment and how multinational corporations are essential for economic growth in developing countries. The argument of this paper is twofold, focusing first on the negative and positive implications of

foreign direct investment and having an agrarian economy, and second, on how these issues can be addressed and approached.

This paper will focus on Honduras as representative of the tension between neoliberal economic theory and dependency theory, and is divided into four sections. The first section will elaborate on the critical thinking of dependency theory and neoliberalism, and the contributions that both theories present to developing countries in promoting economic growth. In the second section, this paper will present an economic history of Honduras, highlighting how colonial rule and the influence of "northern" countries, particularly the United States, has produced an agrarian economy. Specifically, it will focus on the impact of the banana companies on the economy. Section three will concentrate on the systematic trade deficit that Honduras has experienced since 1973, commenting on the arguments put forward by dependency theorists; it will elaborate on the increased benefits of foreign direct investment, and how FDI can contribute to the development of the economy of Honduras, while also focusing on the arguments put forward by dependency theorists, since FDI has produced little improvement. Additionally, it will discuss the beneficial role multinational corporations have on increasing wages and the transferring of skills. In section four, this paper will attempt to bridge the gap between neoliberalism and dependency theory by analyzing the economic history of Honduras, and how this has influenced and limited economic growth. This paper will conclude by reiterating the struggles that Honduras faces and the outlook for its economy.

Although there is no one universally-accepted definition, a developing country is considered, by world standards, as a state with a low per capita income (Myint & Krueger, 2016) and limited industrial and economic modernization (Cambridge Business English Dictionary, 2017). For the purposes of this paper, a developing country includes the characteristics mentioned above, and refers to a state that has an agrarian economy and, because of this, experiences a systematic trade deficit which in turn slows and prevents the industrial modernization of its economy. Development signifies the improvement of the quality of life (Becker, 1984) and economic growth, whereby a state's wealth increases over time (Cornwall, 2015). Development and economic growth (bolstering the economy), are imperative for developing economies. Most of the population in developing economies are hampered by low income, unemployment, and poor quality of life (Foran, 2012), which in turn prevents this part of the population from pursuing economic interests that would otherwise contribute to the economic growth of their state. Neoliberals argue that increased foreign direct investment and the further opening of the markets ensures economic development (Ahiakpor, 2010). On the other hand, dependency theorists argue that opening the markets to the global economic system reduces economic growth, since each state holds a power position, and developing economies become subject to influence from those in the upper hierarchy (Foran, 2012). Thus, it is important to analyze the fundamental concepts and contributions of each theory, and consider how they influence and affect developing economies.

This paper focuses on Honduras, as it is a good representative of developing countries and the tension between neoliberal economic theory (specifically foreign direct investment) and dependency theorists. Honduras is the second-poorest country in Central America (Miller & Kim, 2017) with trade being essential because of its agrarian economy. The economy consists mainly of exports of bananas, cultivated shrimp, and coffee (Honduras Balance of Trade, 2017). Honduras' balance of trade is currently at -$452.80 million USD (Honduras Balance of Trade, 2017), highlighting the negative consequences of depending on an agrarian economy. Significantly, Honduras has had a systematic trade deficit since 1973 (Honduras-Balance of Payments, 2017) and at the same time, it is one of the Latin American countries with the highest

economic growth in the last few years (Honduras: Economy, 2017). However, with more than 63% of the population living in poverty (World Bank, 2017), it is necessary to analyze if economic growth, as considered by neoliberals, is producing social benefits. In sum, Honduras represents the complexity of the issues that developing countries face in promoting economic growth and development.

Dependency Theory and Neoliberalism: Key Thinking and Contributions

Dependency Theory

Dependency Theorists argue that developing economies are dependent upon the success and expansion of the world's economy (Dos Santos, 1970; Foran, 2012; Regan, 1982). Moreover, states of the north (that is, developed economies) operate under the assumption that Latin America can have the European economic experience of the nineteenth century, and advocate that developing economies integrate themselves into the international market (Regan, 1982). Furthermore, per Dos Santos (1970), the economies of developing countries are integrated into global markets where the relations are structured unequally for developing economies, with the surplus generated in these transferred to the developed countries. Dos Santos (1970) focuses on what he calls the "New Dependence," with developing economies subject to limitations such as the revenues generated by the balance of payments (limit of resources) and the restriction to the monopoly of patents, which transfer machines as capital instead of as commodities. Latin America is not integrated into the global economic system on par with other states, and because of this, it experiences unequal development and discontinuous economic growth (Regan, 1982). Importantly, Foran (2012), drawing on the work of Cardoso and Faletto, points out that there are significant differences among Latin American states, and the unique economic history of each has produced economies that were shaped differently by external market forces.

For this paper, the most important aspect of dependency theory is its analysis of the market structure of developing economies. The market structure produces a balance of payment deficit in developing economies, caused by imports being higher than exports, which leads to a lack of foreign reserves, causing developing economies to incur massive debts and to lack industrialization. Furthermore, dependency theorists recognize the unique situation of each developing country's economy, which casts into doubt the neoliberal argument that one size really can fit all. Although the factors pointed out by dependency theorists are rooted in facts, they are framed in a way that highlights only the negative consequences of the global economic system, and does not acknowledge the benefits produced by foreign direct investment and the liberalization of the economy. Hence, it is necessary to understand the strategy proposed by neoliberals and the benefits that developing economies can procure from neoliberals.

Neoliberalism: Foreign Direct Investment

The most renowned approach to development has been neoliberalism. Major international financial institutions, such as the World Bank, have supported neoliberal economic theory, and have been the primary proponents of its application in Latin America (Wahidi, 2012). Neoliberalism advocates for the deregulation of the market and the elimination of trade barriers, with low tax rates for foreign investments to increase foreign direct investment. Benefits received from FDI include the transfer of technology, increased corporate tax revenue, and human capital development in the form of new skills training (Loungani & Razin, 2001; Noorbakhsh & Paloni,

2001). Furthermore, according to the neoliberal economic model, only a free market and full integration into the global economic system, relying on export-led development, will bolster the economies of developing countries (The neoliberal approach to economic development, 1999).

Although neoliberalism has been viewed with disdain and contempt by most governments in Latin America, perhaps it is time for governments of developing economies to recognize the benefits of foreign direct investment. FDI is paramount in bolstering development in developing economies (OECD, 2002). Some of the advantages include policy coherence for development, as well as access to international markets and technology. FDI promotes economic growth for host countries by allowing for factor productivity and income growth that would otherwise not be accomplished by domestic investment. Foreign direct investment is essential to the economies of developing countries because investors provide funding and expertise to increase international sales (Amadeo, 2016). As noted in the report of the OECD (2002), FDI boosts foreign trade flows and allows countries to integrate themselves further into the global economy. Although this is beneficial, it presumes that the global economic system is ideal. As argued by Mattoo and Subramanian (2009), the liberalization of markets and the increasing integration of diverse markets at different levels of development results in the globalization of market distortions. Market distortions leave developing countries at higher risk, with more at stake than developed countries. Although FDI can improve the economies of developing countries, perhaps it is time to tailor economic programs to their markets requirements. Thus, it is vital to understand the major flaws in each theory, in hopes that bridging the gap can lead to economic and social benefits for developing countries.

How did Honduras get where it is today?

Economic History of Honduras

The discovery of the new world provided many opportunities, especially for the European imperial powers. Spain began colonizing Honduras, along with most of Latin America, and took official power over the country in 1539 (Honduras: History, 2017). Honduras was the most underdeveloped colonial province at the time of the conquest, with its economy consisting mainly of mining and indigo dye, primarily for the European market (Peckenham & Street, 1985). By the 1560s, mining began to decline, and so did the importance of Honduras as a Spanish colony (Merrill, 1995). Although most of the population practiced agriculture, it did not create a thriving export market and served mainly as a form of subsistence for the residents. Rural Honduras remained mostly un-colonized, with Tegucigalpa and Comayagua being the Spanish base of authority.

Spain's rule over Honduras was characterized by a lack of economic development, opposition and evasion of taxes by residents, and threats from the English presence in the Caribbean (Merrill, 1995). By 1821, Honduras, along with other Central American provinces, declared independence from Spain and allied itself with Mexico; instead of growing the economy, this only led to further decline. It was foreign intervention and a period of civil strife that set the stage for the economic and social backwardness that Honduras would face in the nineteenth century (Merrill 1995). Moreover, in comparison with other Central American colonies, Honduras was the least prepared for the movement towards independence (Acker, 1988). In 1894, General Manuel Bonilla Chirinos became president (Merrill, 1995). General Bonilla was a major proponent of foreign direct investment in the form of banana companies, arguing that it would bolster the economy of Honduras, and so he began infrastructural improvements such as road-building.

Banana Companies: Laying the Groundwork for an Agrarian Economy

When the silver standard was abandoned, it left in its wake an empty national treasury, high levels of unemployment, and the Honduran economy at a standstill (Acker, 1988). Thus, the importance of thriving banana companies was promoted as another way to boost a failing economy. In an undeveloped economy riddled with chaos and a lack of transportation, the necessity of foreign investment became clear. The banana companies brought schools, medical clinics, roads, and jobs. However, the profits gained by the banana companies were much greater than that of the Honduran economy and people, and the exploitation of these is too great to ignore. There was blatant manipulation by the banana companies, defrauding the Honduran government in search of bigger profits, which infringed upon Honduran sovereignty (Acker, 1988). The two companies most infamous for such acts were the Cuyamel and United Fruit Companies (Colby, 2011). The companies had previously caused a territorial dispute between Guatemala and Honduras, which almost led to war. The ensuing conflict, mediated by the United States, resulted in Guatemala gaining formerly Honduran territory.

Bananagate scandal

A prominent example of how owners of banana companies pursued actions in their self-interests, while influencing the governments of host countries to their advantage, is the "Bananagate" scandal. Citizens of Honduras felt indignant that less than 20% of the revenues were being returned to the host country (Keifer, 2011). In 1974, this led to the Honduran government doubling the taxes on banana exports to generate higher revenues. Because of this, United Brands bribed the government of Honduras with $2.5 million to revoke the tax, while also destroying 100,000 boxes of bananas per week. When the news was released, it became known as the Bananagate scandal, and led to some of the assets of the company being nationalized by Honduras. Moreover, this was not the first time such acts were committed by a banana company. In 1912, Samuel Zemurray, a banana plantation owner, was discontent with the U.S.-Honduran agreement over customs tax (Chiquita, 2010). He bribed the President at the time, Gen. Bonilla, who in return waived Zemurray's obligation to pay taxes for the next 25 years. Furthermore, the culprit behind the overthrow of the Honduran government that brought Gen. Bonilla to power was "Sam the Banana Man," the nickname given to Samuel Zemurray (The ousting of the president of Honduras 1911, 2017).

Dependency Theory and Neoliberalism: How does it come into play in Honduras?

Dependency Theory and the Systematic Trade Deficit

The only option available to Honduras in the early twentieth century to begin economic development was to base its economy on agriculture, through foreign direct investment in the form of banana companies. However, this option resulted in economic turmoil and under-development for the Honduran economy. Geographically, Honduras is prone to natural disasters, and is economically susceptible to changes in commodity prices (EconomyWatch Content, 2010). The economy of Honduras is a prime example of the arguments made by dependency theorists, with the trade deficit in Honduras a result of having to import high added value goods and fuels (Honduras Balance of Trade, 2017). The maximum balance of trade experienced by the country

was in 1997, with a surplus of $40.10 million USD and the lowest has been -$605.24 million USD in August of 2008. To further illustrate the trade deficit dilemma, between the years 2010 and 2015, imports increased at an annual rate of 3.6%, which rose from $8.34 billion USD to $10 billion USD (OEC, 2017). Trade data from 2015 shows that imports of goods and services were almost $13 billion USD and exports of goods and services were $9 billion USD (Honduras: Economy, 2017).

As a result of the experience Honduras has had with FDI, the proposal to establish "Model Cities" (independent territories under the administration of the Honduran state) was rejected in 2012 (Varda, 2017). First proposed by President Porfirio Lobo, the territories would be modeled after Hong Kong, Shenzhen, and Singapore, having the flexibility to pursue economic strategies that would convert them into key cities of commerce. The cities were projected to generate 13,000 jobs in 2013, and 30,000 by 2014, so that in four years almost 200,000 jobs would have been created. The first rejection of the model cities was based on the argument that Honduras would return to being a banana republic, as it was when American fruit companies controlled the economy, and that the cities are based on free market capitalism (Charte, 2012), that would not generate much profit for Honduras. It was necessary to amend two articles of the Honduran Constitution and obtain a majority in Congress, to approve the proposal. Moreover, the approval only took place after the project was renamed as "Special Regions of Development." However, the controversy surrounding the proposal has prevented any further development; to this day, the only accomplishment has been the approval of the project. Thus, the impact of dependency theory in Honduras has led to the inhibition of economic growth in certain areas. In only highlighting the negative aspects of such proposals, the road towards economic growth has taken a diversion that has cost the Honduran economy valuable opportunities for innovation. Therefore, the benefits of foreign direct investment must be promoted and recognized to increase development and economic growth in developing countries.

Neoliberalism and Foreign Direct Investment

Overall, foreign direct investment has been increasing for Honduras (Honduras: Foreign Investment, 2016). However, a major inhibitor to investment in Honduras is the instability of the climate, where violence, weak institutions, underdeveloped infrastructure, and corruption inhibit FDI. A common problem in developing countries is the accumulation of wealth in the hands of a few, which creates conditions of socioeconomic inequality characteristic of developing countries. However, Honduras is a state that promotes an open economy, as evidenced when President Juan Orlando Hernandez held an economic conference called "Honduras is Open for Business (HOB)" in 2011 to attract foreign investment (Honduras is Open for Business, 2011). Like strategies employed to attract the banana companies in the 20th century, the HOB provides significant tax benefits to attract investors. Likewise, the arguments are made that it benefits wealthy investors and limits governmental income, where tax exemption has been a problem characteristic of Honduras.

It is difficult or almost impossible to develop an economy in a region rampaged by violence and underdevelopment. Thus, governments of developing economies are forced to provide significant incentives to foreign investors at the expense of obtaining the necessary means for the government to invest in social areas of the country. Hence, developing economies face not only corruption and lack of infrastructure, but also a long process towards development wherein the benefits they reap are limited in the present global economic system.

Role of Multinational Corporations

Multinational corporations (MNCs) play a significant role in promoting economic growth in developing countries. MNCs provide improved quality goods and higher earning incomes (Ahiakpor, 2010). Furthermore, the wage premia of workers who began working in a multinational corporation are higher than if they stay working at a local firm (Hijzen & Swaim, 2008). Also, major corporations such as Nike have installed codes of conduct since the anti-globalization movements, ensuring that working conditions improve for workers in developing economies. Furthermore, it is increasingly difficult for MNCs to continue aggressively pursuing their self-interests in the wake of protests against brand-name retailers (Sasser, Gereffi & Garcia-Johnson, 2009). Moreover, the creation of jobs by MNCs is extremely beneficial for the host country. As Honduras begins to open its economy and attract foreign investors, Nike has planned to invest in the country, setting up a manufacturing company that will generate around 25,000 jobs (Nike Investment Announced in Honduras, 2016). Thus, the role that multinational corporations have in promoting economic growth in developing economies is essential for stimulating the economy.

Bridging the Gap

Honduras ranks as the 107th most complex state on the Economic Complexity Index at -0.764, while also having a comparative advantage in its share of global exports. Honduras has the potential to develop its economy, but factors such as external debt (which is $8154.40 million USD) and social inequality prevent it from doing so. So the question becomes why has Honduras not been able to experience economic growth at a high rate? The answer lies in the fact that while Honduras remains only an agrarian economy in an uneven global market, the process towards development will be long and painful. Foreign direct investment provides the skills that workers lack and the funding to increase international sales. However, what neoliberals refuse to acknowledge is that the current global economic system forces developing economies to run massive debts that, along with a devalued currency, promote a system that leads to a stunted rather than a boosted economic growth. Moreover, the economies of developing countries have not changed much, if at all, since legally becoming sovereign independent states – meaning that the new cat in town has only dyed its coat. The economies of developing countries are still reeling from the adverse effects of colonialism, and it remains ever-present in their daily lives. United Fruit Company became Chiquita, and United Brands became Dole, and both hold a disproportionate amount of Honduras' agricultural land and are the primary growers of bananas (Moncada, Woodward, & Clegern, 2017).

Neoliberal policies, such as debt relief provided by the International Monetary Fund, were either too difficult to implement or viewed as being in the interests of foreign capitalist in developing economies (Sharma & Kumar, 2002). Thus, it is important when considering FDI in developing economies to consider the economic history of such states. Most importantly, the profits gained by MNCs are not allocated fairly to developing economies, wherein the road to development is long and unstable. The fundamental problem with neoliberalism is summarized in the words of Keynes: "the long run is a misleading guide to current affairs. In the long run, we are all dead" (Krugamn, 2010). Moreover, dependency theorists can gain influence by highlighting the negative impact of foreign direct investment and integration into the global market, since they

appear as a black stain on a white cloth. Thus, what is needed to bridge the gap between dependency theory and neoliberalism are two fundamental arguments:

1. Understand the unique history of developing economies, and
2. Foreign direct investment tailored to the economies of such.

It is next-to-impossible for developing economies to experience economic growth that would lead to drastic changes if the present economic system is not reformed to benefit developing economies at the same level as developed countries. However, this does not imply that developing economies could compete on par with developed economies, but that the latter should receive benefits that, when converted, are equivalent. Only then can developing economies find relief and pursue economic policies that benefit those marginalized in their societies.

Conclusion

In reviewing the economic history of Honduras, it is increasingly tempting to conclude that the economy has remained underdeveloped due to corruption by government officials who, like foreign powers, sought to maximize their self-interests. However, it must be noted that until the twentieth century, the options available to the governments of Honduras were scarce, if any, and the means to achieve development was to allow bigger profits for foreign capitalists, who took advantage of this opportunity and "exploited" the economy of developing countries for their benefit. These actions have led to the distrust of neoliberalism that is characteristic of Latin America (Sader, 2008). This distrust is further intensified because neoliberals ignore the trade deficits, external debt, and negative current account balances (Honduras' is currently -$334.40 million USD) that riddle developing countries, and argue that an open economy boosts economic growth. Although neoliberalism, specifically FDI, has produced benefits and promoted economic growth, it operates in a system that favors states in the upper echelons of the economy, undermining its argument while limiting the economic growth of developing countries.

As shown through the economic history of Honduras, the economies of developing countries are simply too complex to adhere to one economic theory, which provides insight into the challenging tasks that governments of developing economies face. Not only must they address corruption, instability, foreign debts, and negative trade balances, but they must practice economic policies that will have a positive social impact, over which they have little influence. Poverty and underdevelopment is, and will probably remain, a persistent problem in the future for Honduras. However, should both theories begin to accept the valid points made by the other and reform their views, the cry of the Honduran people could be that of Christopher Columbus as he sailed away from the Honduran coast: "Thank God we have come out of these deep waters." Or perhaps it is treading too closely to idealism, hoping that social profit could come before economic gain.

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