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CHAPTER 3

EXPORT PROCESSING ZONES, SPECIAL ECONOMIC ZONES AND THE LONG MARCH OF CAPITALIST DEVELOPMENT POLICIES DURING THE COLD WAR

Patrick Neveling

On 1 November 1950, two Puerto Rican males tried to shoot their way into the provisional White House in Washington, aiming to kill President Harry S. Truman. A report to the US House of Representatives Committee on Interior and Insular Affairs identified the assassins as members of the Puerto Rican Nationalist Party (PRNP), said to be an underground resistance movement opposed to US colonialism. Reflecting the mindset of contemporary US Cold Warriors, the report described the PRNP as 'a handful of independence fanatics ... replete with terror' and supported by the US Communist Party.¹

Given this harsh tone, it is surprising that the report did not see any need for direct political action. Instead, the battle against communism in Puerto Rico was considered won because the US federal government had already extended social security to Puerto Rico, and an extension of the US Employment Service agency had been approved. Such measures, the report boldly declared, would eradicate the roots of terror, since 'It is a historical fact that communism thrives where people are hungry and unemployed.'² The recent Washington shooting was portrayed as a desperate response because local Puerto Rican policies had served a 'deadly blow ... to the collectivist colossus of Moscow' with 'Operation Bootstrap'. The latter was called an 'intelligent and scientific application of a tax incentive program' that had increased employment numbers and tripled the value of production and services within a few years. A letter to President Truman signed by approximately 300,000 Puerto Ricans was presented as evidence for the success of recent US policies. This condemned the attempted assassination, saying that 'during 450 years never before we have seen such an arbitrary act of violence.'³ The report also juxtaposed the 450 years of colonization with the recent past, citing a speech by Puerto Rico's first democratically elected Governor, Luis Muñoz-Marín, who had declared that 'The decade which has elapsed between 1940 and 1950 marked the end in Puerto Rico, long before achieved in the rest of Latin America and Anglo-Saxon America, of the colonial period.'⁴

Places such as Puerto Rico rarely take centre stage in academic studies of the Cold War's economic history. There is an 'either-or' in such studies: the focus is either on economic competition in the heartlands of the capitalist and communist blocs, respectively, or on the policies of the two blocs towards the 'Third World'. This chapter aims to provide insights beyond this dichotomy. Instead, it shows that strategies in the

US dependency of Puerto Rico served as a blueprint for US development policies in the era of decolonization. The Puerto Rican tax incentive scheme, identified above as the 'deadly blow to the collectivist colossus of Moscow', was transmitted globally under labels such as 'export processing zone' (EPZ), 'free trade zone' (FTZ), 'foreign trade zone' (also FTZ) or, more recently, 'special economic zone' (SEZ). For most of the period under consideration in this chapter, the standard label used for such zones was 'export processing zone' (EPZ).⁵ Today these zones are the predominant locations for light-industrial manufacturing, with around seventy million workers in 3,500 EPZs in more than 130 countries.⁶

This chapter follows the spread of EPZs, from US Cold War foreign policy to export-oriented industrialization efforts promoted by the United Nations Industrial Development Organisation as well as the World Bank in the 1970s and the 1980s. The first section reconstructs the establishment of the world's first EPZ in Puerto Rico and highlights the emerging relations among capital, state and labour. It shows that one central debate of the Cold War – how to achieve 'industrial productivity and eventually the good life' – already informed Puerto Rico's choice of export-oriented development policies over import-substitution.⁷ Section two considers how, once the EPZ scheme had produced impressive growth rates, the island's political leadership supported US Point Four and Alliance for Progress missions, helping promote export-oriented development policies as well as US benevolence. Section three focuses on the way EPZs served to undermine a change in development policies promoted by the non-aligned movement. It addresses the United Nations Industrial Development Organisation (UNIDO), one of the new UN agencies that emerged due to the non-aligned movement's agenda but nevertheless became a driving force in the global spread of EPZs in the 1970s. Section four provides concluding remarks about how the analysis of the global spread of EPZs as central theatres of the Cold War introduces seemingly peripheral places into the analysis and how an understanding of what was at stake in the entangled eras of decolonization and the Cold War is advanced if it is framed within the longer history of capitalist exploitation.

Capitalist development in Puerto Rico before and after the Second World War

Puerto Rico came under the control of the United States in 1898. Until then, the island had been under Spanish rule and had produced a range of cash crops such as tobacco and coffee. The Foraker Act of 1900 laid the foundations for a US-style two-chamber political system; the US dollar was introduced as currency; and Puerto Rico became part of the US tariff system. James L. Dietz, a leading economic historian of Puerto Rico, has called the Foraker Act 'an economic instrument designed to control Puerto Rico's economic life'.⁸ It facilitated the entry of US business interests, particularly those of agricultural trusts, which turned a diversified but hardly prosperous economy under Spanish rule 'into a classic monocultural economy' driven by sugar.⁹ 'Exports' to the mainland

quickly rose, while imports from competing cane-sugar producers on other Caribbean islands remained subject to licensing and tariffs. The export-value of Puerto Rican sugar jumped from \$5.8 million (USD) in 1902 to \$53.7 million in 1930; the area under cane cultivation increased fourfold; and milling technology and production processes were significantly modernized. While one could speak of a rapid modernization of local agriculture, in reality US trusts earned the lion's share of profits, as they controlled the most productive mills. The number of local millers declined rapidly as centralization kicked in, and workers' wages were kept low to compete with Cuba and the Philippines, where production costs were supposedly lower. Other industries in the agricultural sector went through similar trajectories, and once the global recession hit Puerto Rico in the 1930s, wages in the agricultural sector were largely insufficient to buy 'adequately nutritious food'.¹⁰

Puerto Rican industrialization is often seen as occurring after the 1940s. But already in the 1920s, the crisis of the local agricultural workforce facilitated the rise of a new, non-agricultural sector that would soon outmatch the growth rate of sugar. Cotton goods produced in the local needlework industry, such as dresses, skirts, blouses and underwear, fetched less than \$800,000 in export revenues in 1920. In 1929, earnings had risen twenty-fold to \$15.3 million. US manufacturers dominated this industry and were supported by educational policies that compelled girls to spend half of their lessons in elementary schools acquiring needlework skills.¹¹ The labour force for 'needlework' in the early 1930s was estimated to be around 60,000, and was spread throughout 166 small shops and households subcontracted by labour agents.¹² However, the rise of this single export-oriented manufacturing industry was insufficient to support population growth. From 1899 to 1930, the population grew from just under one million inhabitants to over 1.5 million, reaching 2.3 million by 1957.¹³

Finding ways to feed and employ the rapidly increasing population was the first in a series of crucial lessons that US policymakers learned in Puerto Rico that would find their way into Cold War policies towards Third World development. Before 1930, Puerto Rico already foreshadowed what would later be known as the 'Malthusian trap' of increasing birth rates, ensuing population increase, a lack of available wage labour and, ultimately, gloomy prospects for a growing and increasingly young population.¹⁴

The Cold War was most violent in the Third World, but the apex of paranoia was arguably reached on the US homefront during the McCarthy era. During the 1920s, Puerto Rican migrants provided rightwing Americans with a sense of what it meant to have increasing socio-economic problems that nurtured anti-capitalist sentiments at their doorstep. More than 45,000 Puerto Ricans lived in large US cities. New York became the central focus for the diaspora community, where public protests focused not only on miserable housing and working conditions, but also protestors' critique of colonial rule in Puerto Rico. Anti-colonial ideas originating in India, Latin America and the Soviet Union spread from New York to Puerto Rico, where they coincided with Wilsonian self-determination ideology taught at local universities.¹⁵

In this climate, a new generation of Puerto Rican politicians rose to prominence. During the Great Depression, while more radical political movements found a large

support base, the moderates of this generation, led by later Governor Muñoz-Marín, called for an extension of the Roosevelt administration's New Deal policies to the island. Muñoz-Marín was elected as a US Senator for the Liberal Party in 1933, and his Washington office gave him access to the highest political circles, including Rexford Guy Tugwell in the Department of Agriculture and ultimately Eleanor Roosevelt, the president's wife. In 1934, the First Lady visited Puerto Rico shortly after a brutal police crackdown on a general strike, which had discredited the Socialist Party's claim to represent all local unions.

At the time, the Socialist Party governed as part of a coalition that included the US sugar trust-driven Republican Party, and both parties opposed the extension of New Deal policies to the island. As the coalition's popularity waned following the failed strike, the Chardón Plan, named after a scientist from the University of Puerto Rico, was launched. This plan proposed the expansion of labour-intensive production in agriculture and manufacturing, as well as government acquisition of one of the large sugar mills to free small planters from having to sell their produce to the large US trust-owned mills. A New Deal-style colonial administration began work on housing projects, poor-relief programmes and food-for-work employment programmes.¹⁶

With the entry of the United States into the Second World War in 1941, further core concepts of the Chardón Plan were implemented. Muñoz-Marín now led the newly founded Partido Popular Democrático (PPD) that had won local elections in 1940. The PPD opted to remain a US dependency until the development agenda bore fruit. Washington, keen to ensure a friendly environment for US military posts on the island, appointed Tugwell as governor in 1941. With his support, excise taxes on imports of Puerto Rican liquor, cigars and sugar to the mainland, which the federal government used as annual funding for local development projects, were placed under local government auspices. With this money, the PPD established a planning board, a government bank and an industrial development company.¹⁷ The Puerto Rico Industrial Development Company (PRIDCO) became operational in 1942. Several million dollars were spent on the construction of factories to produce otherwise expensive import-commodities. New factories for shoes, pulp and paper, glass bottles and cement created 'ten thousand jobs at the cost of US \$21 million'.¹⁸ As we shall see, early Puerto Rican development policies equalled what came to be called import-substitution-based development in the 1950s.

However, the New Deal had powerful opponents on the mainland and in Puerto Rico. After the war, these opponents became very vocal. Business circles and various political parties criticized the amount of money spent per job created as a sign of failure. Strike action in government-owned factories and consultancy reports highlighting better growth prospects from private-sector investment provided a pretext for the leadership of the PPD and PRIDCO to change development policies radically.¹⁹

In the words of the *Wall Street Journal*, a 'Puerto Rican lure' was established.²⁰ This lure was the tax incentive programme, which featured boldly in the report on the assassination attempt summarized in the introduction to this chapter, and laid the foundations for the modern-day EPZ/SEZ development regime. PRIDCO now offered mainland investors customs-free and tax-free production for ten years alongside other

government subsidies such as cheap leases for industrial plots, low rents for state-owned factories and, of course, a cheap, docile labour force, which was policed with a heavy hand. Arthur D. Little, a Boston-based consulting company, was hired to promote relocations. A newly founded Office of Information for Puerto Rico in Washington embarked on a vibrant promotion campaign. In 1946 alone, 14,000 copies of a monthly newsletter were distributed. Another 35,000 brochures were sent to manufacturers, bankers, business writers and so on, promoting 'Puerto Rico's Potential as a site for textile apparel and other industries'.²¹

PRIDCO also reversed its spending policy. Now, the local state invested federal money coming from the excise-tax refund to provide fixed capital assets for private investors; an example was the \$7 million construction of a luxury hotel for the Hilton Hotels Corporation. Agreement for this with PRIDCO was reported as an outstanding success in the corporation's 1946 Report to Stockholders. PRIDCO shouldered all construction expenses. In return, the Hilton Hotels Corporation signed a twenty-year lease for the building, during which the corporation 'had to provide working capital for the efficient and uninterrupted operation'. Annual payment was two-thirds of 'gross operating profits' plus a sum no higher than 5 per cent of the 'cost for installed furniture and fixtures'.²² In other words, had the hotel not made any profit, PRIDCO would have recuperated no more than the expenses for furniture and fixtures at the end of the twenty-year lease. Evidently, the turn away from development driven by state-owned corporations and factories was radical and risky.

Another \$4.7 million of PRIDCO's money went into the construction of a textile plant in Ponce, a larger city on the southern coast. The factory brought a very particular, ruthless form of US capitalism to Puerto Rico, and made the island an important asset for the growing mainland coalition of businessmen opposing the New Deal.²³ Such businesses already had relocated within the US from northern to southern states, where unions were weaker and labour was cheap.²⁴ Relocations of production sites on a global scale would become the hallmark of EPZs across the globe in the 1960s and after. As with the planning infrastructure, Puerto Rico was exemplary for the relations among state, capital and labour that nurtured the emergence of such 'runaway shops'.

The lease for the Ponce textile factory went to Royal W. Little. Little was not only one of the first mainland investors to come to Puerto Rico under the new tax incentive scheme, but also the nephew of Arthur D. Little, the owner of the consulting company working for PRIDCO. In his 1979 published autobiography, Royal Little portrayed himself as a self-made man who became one of the leading US textile and garment manufacturers in the 1940s. Wartime production of textiles and garments for the US Army increased his fortune. In 1943, he set up the first vertically integrated company, Textron, Inc., producing synthetic fibre-based textiles. Textron expanded rapidly, buying out several spinning mills and other plants in New England to obtain their quota of raw materials that the wartime federal state had allocated per plant. The brand became a nationwide success, not least because Textron spent \$1 million annually on advertising.²⁵ Acquisitions in the US northeast had included manufacturers, such as Lonsdale and the Nashua Manufacturing Company, whose operations dated back to the early nineteenth

century. After the war, these were subjected to time-motion studies intended to measure and possibly increase the productivity of workers. When Royal Little realized that the ratio of worker productivity to wages in the southern US mainland states and in Puerto Rico produced a higher yield, he shut down several New England plants. Firing 10,000 workers did not go down well with the Textile Workers Union of America or certain local senators: a US Senate Subcommittee hearing in 1948 investigated the relations between the closures and Textron's recent establishment in Ponce.²⁶

At the opening of the hearing, the presiding senator confronted Little with a letter from the Textile Workers Union of America, which stated that the 'management's judgement cannot always be in the workers' interest. But we do not believe management should be free to wreck an entire community to further its own narrow objective.'²⁷ Referring to the time-motion studies, Little responded bluntly that per-man productivity in New England prevented Textron from competing with other companies.²⁸

With the radical change in development policies, Puerto Rican leaders attempted to raise the living standard of the population by attracting mainland investors. But only substantial incentives could persuade mainland capital to move to the island. On the other side of the relocation chain initiated by Puerto Rican EPZ policies, companies such as Textron were happy to accept the compensation offered. However, this required them to shut down operations on the mainland, since, they argued, production in Puerto Rico was more profitable.

This narrative of entangled histories provides the background for EPZs in the Cold War and in the era of decolonization. Such zones facilitated relocation of industrial manufacturing from one region to another. Relocations served to limit the bargaining power of workers in the abandoned locations of the capitalist bloc, while providing a tool to fend off socialist and communist political tendencies in the receiving Third World regions. The Puerto Rican EPZ regime has had enduring implications for the global debate over development policies. Puerto Rico was a colony, and it remained one in many ways despite the granting of limited sovereignty in 1947: a regime change was unlikely or could have been contained easily with the deployment of the US troops stationed on the island. Therefore, the island and its inhabitants provided a safe laboratory and accordingly served as a training ground for US officials to master the challenges that decolonization posed during the Cold War.

Particularly instructive in this regard was a debate preceding the approval of Act No. 184 in 1948, which granted new investors full exemption from income, property, excise and municipal taxes. Promoting this bill, Teodoro Moscoso, head of PRIDCO and a rival of Tugwell, argued that tax exemption should not be seen as an investor subsidy, as his opponents claimed, but as compensation for costs incurred by operations in Puerto Rico. Large-scale employment, meanwhile, would generate local revenues from workers' income taxes. Soon, the debate over mainland investors became tied to calls for independence. As stated above, the PPD had publicly announced in 1940 that colonial dependency was temporary, and would be waived once economic progress had been achieved. After the Second World War, some political parties rallied for independence again.

The US Tariff Commission supported Moscoso's agenda with a report that established a cost-benefit analysis of US colonialism for Puerto Rico. Mainland support, the report concluded, kept the fast-growing population alive, since it was part of a mainland tariff system that granted Puerto Ricans certain benefits, including: access to goods that might be otherwise unaffordable, revenues from agriculture that went to local shareholders as well as US corporations, and an excise tax rebate from the federal government that allowed the local government to pay for industrial development.²⁹ Dependency even worked both ways, the report emphasized, because an independent Puerto Rico with a starving population would harm the United States' image as a benevolent country.

From an analytical angle, Puerto Rico indeed enjoyed privileged access to the mainland market because it was a US dependency. This access was central for abandoning the initial project of import-substitution: before 1947, government-owned factories had been built to replace imports of shoes, cement and glass bottles. Afterwards, an export-oriented development policy was pursued, with private investors producing goods for the mainland market. Instead of independence, then, the limited sovereignty granted to Puerto Rico in 1947 included a shift from import-substitution to export-oriented development.

Of course, there is an irony to this story: the truly burdensome investments in fixed capital were shouldered by the Puerto Rican state. Similar to the Hilton Hotel Corporation, Textron did not build or buy the Ponce plant. In his autobiography, Little lauds himself for convincing PRIDCO to put up \$4 million for the factory and for machinery. Textron entered the business with \$1 million as working capital. For this, an annual return on investment of 100 per cent was projected. Because such a return did not materialize, Textron received additional PRIDCO money in the early 1950s.³⁰ Still, operations were closed down in 1957.³¹ Coincidentally, 1958 would have been the first year for Textron to pay taxes on Puerto Rican operations.

Textron was an early success story for Operation Bootstrap – in Spanish 'Operación Manos a la Obra' – as the wider framework of PRIDCO's export-oriented development programme was called, and its closure foreshadowed general decline. In the 1960s, many US investors left. Large-scale investment in industrial infrastructures such as oil refineries briefly succeeded in keeping the economy afloat. But by the 1970s, an impoverished population queued for food stamps. The mainland government did not provide any support, possibly because domestic economic crises, with skyrocketing unemployment and stagflation, took up all resources. But in the 1950s, those days were not yet visible. Based on these theoretical considerations, this chapter will now describe the global spread of EPZs from Puerto Rico.

Turning the Puerto Rican EPZ into a showcase for capitalist development

The Puerto Rican EPZ regime became a hotspot for global diffusion. US Cold War propaganda about Puerto Rico did not necessarily highlight the particular relations

among capital, state and labour that were a defining feature of early EPZs. Neither did propagandists emphasize that manufacturing relocation was an excellent tool to undermine workers' bargaining power, or anything else suspicious administrators in Washington took for activities aligned with the 'communist colossus'. Instead, what US propaganda focused on was high growth rates in Puerto Rico to convey a twofold message: The first was that export-oriented, capitalist development could indeed produce rapid growth and therefore deliver on the promise of the good life. As Cold War tensions increased, such a message became essential to the survival of the many anti-communist regimes that the United States maintained or sought to set up across the developing world. As the following will show, many of these regimes, including Egypt and Taiwan (then Republic of China), set up their own EPZs.³² The second message concerned the United States itself: promoting the superpower as a benevolent nation that treated obedient dependencies, such as Puerto Rico, with utmost care was crucial in the global climate of decolonization.

A Ford Foundation-funded biography of Teodoro Moscoso, the founding director of PRIDCO, recorded 10,000 visits by foreign officials since 1947 to inspect and learn from the Puerto Rican 'miracle'.³³ This high number is realistic, given that successive US administrations promoted the island as a blueprint for successful, capitalist development policies. Puerto Rico was a crucial representative of the Truman administration's Point Four programme and the Kennedy administration's Alliance for Progress. The reliance of these initiatives on Puerto Rico was grounded not only in sheer numbers, but also in two types of personae: Puerto Rican politicians and US consultants. In particular, the Arthur D. Little (ADL) consulting company played a pivotal role in Point Four, while a networking relationship between ADL and Puerto Rican officials became one of the backbones of the Alliance for Progress.³⁴

In the first fifteen years after 1947, Operation Bootstrap did indeed produce high growth rates and substantial employment. As the island attracted increasing relocations from the US mainland in textiles, garments, switchboard assembly and other electronics manufacturing, Puerto Rican officials were sent around Latin America to give testimony of US benevolence. As early as October 1951, Puerto Rican Senator Ernesto Juan Fonfrías toured Latin American capitals. Initially heading a Puerto Rican delegation to the Inter-American Press Association conference in Montevideo, the senator stopped in Rio de Janeiro, Lima, Quito and Bogota to give public speeches and press conferences.³⁵ Another stop was Santiago de Chile, where the local US ambassador sent a cable to Muñoz-Marín praising the senator's 'most attractive personality', which had helped inform Chileans and American residents 'about the true relationship existing between the people of Puerto Rico and their fellow citizens of continental United States'.³⁶

Promotion activities also targeted audiences with significant leverage in regional development policy. In February 1952, the Caribbean Commission held its annual 'Industrial Development Conference' in Puerto Rico. Delegations from the French Caribbean Department, the Dutch Antilles, the UK territories of Barbados, Jamaica, Trinidad and Tobago, and the US territories, Puerto Rico and Virgin Islands, were present. 'Observers' included delegations from ADL, Canadian *Caisse Central de*

la France d'Outre-Mer, the Chambers of Commerce of Guadeloupe and Trinidad, Britain's Colonial Development Corporation, the Dominican Republic, the Economic Development Administration of Puerto Rico, the French Consulate in San Juan, the French Embassy in Cuba, the Puerto Rico Manufacturers' Association, the United Kingdom & British Co-Chairman of the Caribbean Commission and the University College of the West Indies.³⁷

In his opening speech to the conference, Muñoz-Marín was keen to highlight the similarities between Puerto Rican problems and those of other Caribbean islands in terms of population growth, unemployment and establishing an industrial manufacturing base.³⁸ After an eight-day exchange, the conference came up with dozens of recommendations, all of which suggested export-oriented development as the key to industrialization. The Puerto Rican organizational model – comprising a development corporation, a government development bank and a planning board – was highlighted in the final Commission report, as were suggestions for zoning industrial estates, introducing industrial standards and quality controls, promoting industrial relocation, increasing labour productivity, government-funded factories and a range of tax incentives to attract investors.³⁹ Additional research in British and Caribbean archives is required to determine the extent to which this Puerto Rican conference was a hallmark for the region. But certainly Jamaica and Trinidad, at the time both still British colonies, accordingly intensified their export-oriented policies in the 1950s. Jamaica set up a development corporation in 1952, and the colony became a role model for development efforts in other British dependencies such as Mauritius.⁴⁰

As early as 1951, PRIDCO celebrated the signing of its 100th contract with an investor – in this case US mainland corporation Beacon Textiles, Inc. – and turned this into a large celebration of its own achievements and Puerto Rico's progress more generally. A local newspaper, *Diario de Puerto Rico*, concluded that 'the Puerto Rican people have "fabricated" a superior economy against all the obstacles of its destiny'.⁴¹ The US marketing agency, Hamilton Wright, made feature-length, documentary-style movies about Puerto Rico – one entitled 'Island of Progress' – that were screened in Puerto Rican cinemas, on the mainland and across the Americas.⁴²

ADL chairman Raymond Stevens joined the celebrations in Puerto Rico, holding press conferences and visiting factories and the PRIDCO housing project. His schedule also included swimming, sightseeing, night clubbing and a pig-roast at popular Luquillo Beach.⁴³ This may well have been the blueprint for Latin American delegations' visits that made the island a useful tool for Point Four, as well as for mainland journalists, flown in at the expense of Hamilton Wright, to pen positive reports about Puerto Rico's lighthouse effect for the free world.⁴⁴

For ADL, the Puerto Rican success was excellent business. In 1950, ADL became the sole auditor for investors approaching the local Government Development Bank for a loan.⁴⁵ On holiday in Jamaica, one senior ADL member followed up contacts with the local government, and secured a contract for ADL to advise on establishing Jamaica's first national development agency; ADL held board membership and line-managed staff in Jamaican investment promotion offices in New York and London. Among other EPZ

measures, an ADL memorandum suggested ten-year tax exemptions for investors as a central feature for Jamaican development policies.⁴⁶

Business opportunities soon stretched to other continents, as ADL was put in charge of the industrialization branch within the Point Four office in Egypt.⁴⁷ In 1960, ADL joined forces with the Asia Foundation to work on industrial development projects in East Pakistan. Joint plans for a travelling institute for industrial development promotion in Asia were also drawn up, and Thailand was chosen as the first showcase.⁴⁸ Of course, not all ADL projects endured successfully. In 1960, the *Wall Street Journal* printed a feature-length piece and the influential German weekly *Die Zeit* devoted three pages to ADL's delivery of 'ideas on demand'.⁴⁹ Both newspapers emphasized one potential pitfall of Cold War development policies that neither Point Four nor later US development projects could surmount: as the *Wall Street Journal* only half-jokingly mentioned, regime changes in Honduras, Cuba and Egypt had forced ADL to abandon projects that incoming socialist (leaning) governments could then use for their own purposes.⁵⁰

However for ADL, such developments were no less lucrative. During the 1960s, the frontier of capitalist industrial manufacturing actually expanded. In the early part of the decade, the Kennedy administration set up the Alliance for Progress, and many Puerto Rican politicians and bureaucrats became US envoys to Latin America. Former PRIDCO Director Moscoso had an exceptional career. He was appointed US Ambassador to Venezuela before moving on to an appointment as US Coordinator of the Alliance in 1962.⁵¹ Once the Alliance turned sour, an ADL stockholders meeting on 26 March 1965 elected him to the board of directors, and, on the same day, Moscoso sat in on the Annual Directors Meeting at the headquarters in Cambridge, Massachusetts.⁵² This may well have been a reward for ADL's highly beneficial relationship with PRIDCO. ADL's Puerto Rican business had further increased in 1956 after Moscoso had set a new target during PRIDCO's celebration of the 400th factory opening. Soon, the aim was to double the number of factories from 500 to 1,000. To help with this, ADL was contracted to set up a permanent office in San Juan in 1957.⁵³

When that office was closed in 1962, its director, Richard Bolin, moved to Mexico to set up a new ADL resident office. The historical record on Bolin's work in Mexico is somewhat contradictory. Bolin himself claims that his was a singular effort based on successful collaboration with Mexican officials, while historians have portrayed him as an ADL employee.⁵⁴ It seems, however, that ADL obtained a consultancy and recommended the establishment of bonded factories for border cities with standard EPZ incentives such as tax and customs exemptions, state-funded industrial estates, oppressive anti-unionization policies and so forth. This was then implemented under the Mexican government's Border Industrialisation Programme, which became operational on 1 January 1965, just one day after the forced return migration of millions of Mexicans working under the Bracero programme in the US agricultural sector had begun. Similar to the needlework industry in Puerto Rico, EPZs were not necessarily a watershed for Mexican export-oriented development policies.⁵⁵ The zones were rather 'the last in a series of systematic efforts' to industrialize the Mexican border region, dating back to the granting of free-trade privileges for bonded warehouses in the 1930s.⁵⁶ But in terms

of growth rates and employment figures, the Border Industrialisation Programme was far more successful.

Similar to Textron's relocations to the United States south and then Puerto Rico, US industrial relocations to Mexico soon met strong criticism from unions. As the capitalist bloc underwent stagflation during the 1970s, a US Congress hearing considered whether two clauses in the US tariff system, which promoted the partial manufacturing and assembly of textiles, garments and electronics abroad, were actually detrimental to the national economy. Bolin had set up the Flagstaff Institute in the early 1970s, offering research and consultancy to US companies seeking to relocate to northern Mexico. At that hearing in 1976, Bolin helped US industrialists successfully defend their interests against the unions.⁵⁷

This section has focused on the way the EPZ model was promoted to developing nations via the example of Puerto Rico and the services of ADL during the first decades of decolonization. The 1976 US Congress hearing offered a first indication of how events in international politics were increasingly caught up with the EPZ promotion business in the 1970s. The following section reconstructs the importance of 1970s' international politics for EPZs as well as the prelude and the aftermath to that decade.

Turning US development policy against the non-aligned movement

Following the Bandung Conference in 1955, a number of developing nations formed what came to be called the non-aligned movement. This movement would become a powerful alternative to the capitalist and socialist blocs during the 1960s and the 1970s. One of its main achievements was the establishment of new UN agencies for the promotion of Third World development in the 1960s. The UN Commission on Trade and Development (UNCTAD) was headed by the famous Latin American economist, Raúl Prebisch, who had been fighting for greater national autonomy in development policies since the 1950s. His work is often associated with the rise of import-substitution policies, as opposed to export-oriented development policies. Section two of this chapter has shown that a dispute over such policies in Puerto Rico actually preceded this debate of the 1950s. Nevertheless, the policies promoted by the non-aligned movement conflicted with the EPZ regime that had spread across the decolonizing world since the late 1940s.⁵⁸

Besides UNCTAD, the UN Development Programme and the UN Industrial Development Organisation (UNIDO) were established in the 1960s to cater to the needs of the Third World. Tense negotiations within the UN Economic and Social Council (ECOSOC) between the capitalist bloc, the communist bloc and the non-aligned movement over industrial development preceded the creation of UNIDO. The capitalist bloc initially opposed the establishment of a UN agency devoted to industrial development. ECOSOC resolution 751 (XXIX) of April 1960 therefore established an Industrial Development Committee. Four years later, the tables had turned, and the fourth IDC session unanimously recommended the creation of UNIDO to the UN General Assembly.⁵⁹ The following thus describes a historical irony: that is, soon after

its foundation, UNIDO, an organization intended to strengthen national sovereignty in an era of export-oriented development policies, became the driving force in global EPZ promotion, delivering the triumph of EPZs in global light-industrial manufacturing from the 1970s onwards and strengthened multinational corporations instead.

Setting up UNIDO meant, however, that the policies of all UN member-states towards industrial development were considered part of the new agency's agenda. This posed a decisive obstacle to the non-aligned movement's wishes to establish a new international economic order. Instead, in the 1970s what sociologists labelled a 'new international division of labour' emerged, in which EPZs brought increasingly exploitative labour relations to developing countries, while relocations triggered structural unemployment in the capitalist bloc.⁶⁰

In preparation for a decision on UNIDO's organizational structure and tasks, the UN Industrial Development Committee's associated Centre for Industrial Development (CID) sought models of industrialization. A questionnaire that was distributed to member-states via the UN Secretary General in September 1966 pointed to the potential of export industries in accordance with ECOSOC resolution 1178 (XLI). By then, and as the sections above have shown, several countries and colonial dependencies had EPZs up and running. Others, such as the Philippines, were developing EPZs with funding from USAID and other sources.⁶¹ Therefore, EPZs figured prominently in the CID progress report to the first session of UNIDO's general assembly, the Industrial Development Board, in 1967. Accordingly, the board suggested that UNIDO promote EPZ-like regimes, and a group for export promotion was established as part of the Industrial Policies and Programming Division.⁶²

This group quickly went to work. Headed by William Tanaka, whose home country Japan had substantial interests in EPZs by that time, the export promotion team conducted a global survey on EPZ activities in 1970. The correspondence for this survey also became the centrepiece for promoting UNIDO's export promotion services to national development agencies and ministries.⁶³ An early technical assistance mission to Mauritius in 1969 was regularly mentioned in marketing-style letters, as Tanaka sought to acquire further technical assistance requests from member-states.⁶⁴

Tanaka and his export promotion team had a substantial sum of money at their disposal. Their challenge was to spend it, rather than deciding which requests for technical assistance to accept or decline. UNIDO's export promotion team was not only looking for 'customers' for its TA missions: it also needed expertise on EPZs. Similar to PRIDCO in Puerto Rico, existing EPZs across the world were run by agencies that enjoyed significant independence from government ministries. And similar to Moscoso, such agencies' personnel were well trained to spot lucrative opportunities.

The Kaohsiung Export Processing Zone Authority in Taiwan was the first agency to recognize that with UNIDO's export promotion, consultancy could make a fortune. Much like Puerto Rico, Jamaica and Mauritius, Taiwan's economy had long been reliant on agriculture, particularly sugar. As one of the main allies of the United States since the onset of the Cold War, Taiwan received substantial US development funding and, with this, US approaches to economic development. First plans for an EPZ had been

drawn up in the mid-1950s and were realized when the first EPZ opened in 1965 as part of a new container harbour in Kaohsiung.⁶⁵ Kaohsiung EPZ Authority's responses to the 1970 global EPZ survey strongly impressed Tanaka, who responded that few of the 'more than a hundred free zones ... are indicating a success, [but] we feel that the KEPZ is showing the best results in its contribution to the industrialization of the country and the promotion of exports.'⁶⁶

It is surprising at first that Tanaka expressed such strong doubts about the performances of EPZs when he sought to become key to their global spread. This is important to note: first, Tanaka's motive was to position UNIDO's export promotion as paramount among the agencies promoting the spread of EPZs. Private consultancy firms such as ADL or Bolin's Flagstaff Institute were options, as were national development promotion agencies from the United States and other capitalist bloc nations. Dismissing what these had achieved so far may have been in Tanaka's interest. Second, this exchange is revealing about the origins of EPZs. The survey that Tanaka and his group conducted covered not only EPZs: the vast majority of the 'more than a hundred free zones' mentioned were free port and free trade zones. Such regimes mainly concerned the duty-free storage and customs-free trans-shipment of goods, and had a much longer history than EPZs. Recently historians have sought to establish a historical continuity that connects the US free zone system that became operational in ports in the 1930s to the global spread of EPZs.⁶⁷ International development agencies have sometimes pointed to historical continuities dating to the Hanseatic League port cities of medieval days, or, more recently, to one free port in Roman Antiquity.⁶⁸ Because there was no production and, hence, no industry in the many free ports and free zones that UNIDO's export promotion team surveyed, Tanaka dismissed their workings as unsuccessful in the above quote. This demonstrates why it is advisable to establish clear categories for comparison in world history and delineate the trajectories of historical phenomena such as EPZs and SEZs accordingly.⁶⁹

The cooperation between UNIDO's export promotion team and the Kaohsiung EPZ perfectly illustrates how the Cold War international political arena shaped the operations of UNIDO. The large funding that the export promotion team had for promoting export-oriented development policies with EPZ regimes came from a special fund that enabled UN member-states to donate to UNIDO with a specified purpose. Many capitalist nations thus gave money for the spread of EPZs.⁷⁰ Plans for a close collaboration between UNIDO's export promotion and Kaohsiung EPZ Authority were drawn up, and an international training workshop on EPZs was planned for 1971. This was advertised repeatedly in the UNIDO newsletter, a monthly publication distributed globally.⁷¹ But just three weeks before the workshop was to be held, the Taiwanese delegation walked out of the UN Council to protest against the possible inclusion of the People's Republic of China (PRC), which seemed imminent after many UN member states had recognized the PRC in the 1960s and the United States established relations with the PRC after the Sino-Soviet border conflict in 1969.

Now that Taiwan was no longer a UN member, the UNIDO workshop had to be moved elsewhere quickly. This was a stroke of luck for the Shannon Free Airport

Development Corporation (SFADCo), a partly state-owned development agency in the Republic of Ireland running an EPZ attached to Shannon airport.⁷² SFADCo leadership not only secured the hosting of this workshop in early 1972 but also placed an affiliate, Peter Ryan, as Tanaka's successor. From 1972 until well into the 1990s, a significant percentage of UNIDO's EPZ consultancy contracts went to SFADCo. One beneficiary was Shannon entrepreneur Tom Kelleher, who wrote the first *Handbook on Export Processing Zones*, published by UNIDO in 1976. This handbook was a comprehensive guide to establishing an EPZ; it included templates for organizational structures from EPZs in Shannon; Bataan, Philippines; and Masan, South Korea, as well as a blueprint act for setting up an EPZ by national law.⁷³ That handbook is possibly most emblematic of the inexorable global spread of EPZs from the early 1970s onwards; it remains UNIDO's second best-selling publication ever, and many national EPZ laws strikingly resemble its suggestions.

Even an escalation of the non-aligned movement's demands for a new international economic order at UNIDO's second general conference in Lima in 1975 could stop neither the process initiated by the export promotion team nor the general global spread of EPZs. In Lima, a ballot of eighty-two against one, with seven abstentions, voted for a fifty-seven-point declaration demanding sovereignty over natural resources, the right to nationalize economic activities 'in accordance with its laws', and strict guidelines for multi-national corporations operating in foreign countries.⁷⁴ Such measures, if applied, would have contradicted most of what EPZs were about: for example, they would have restricted the free hand given to multinational corporations. But the Lima Declaration hardly informed political and economic policies on the ground. In 1975, twenty-seven of the seventy-seven non-aligned nation states had EPZs operational or in an advanced planning stage: if Third World nations wanted to find an entry point into the world market for industrial manufacturing, they had little choice but to follow the policies established in Puerto Rico in 1947. With the Third World debt crisis emerging in the late 1970s and escalating in the 1980s, this situation became aggravated and the choices of Third World nations were depleted further.

The export promotion team could not foresee those events and thus took measures to make the EPZ business independent. At a working group meeting in Barranquilla, Colombia, in 1974, Ryan proposed an independent umbrella organization of EPZs worldwide. This World Export Processing Zones Association was inaugurated at a UNIDO-funded expert working-group meeting in Bataan's EPZ by delegations from thirty-two EPZs in 1978.⁷⁵ Three years later, former ADL staff member, Richard Bolin, was elected president, and World EPZ Association operations merged with the operations of Bolin's Flagstaff Institute. World EPZ Association consultants started taking a large cut of UNIDO and World Bank consultancy contracts. As this business grew, World EPZ Association and Irish consultants associated with Shannon, rather than competing, closely collaborated.

In the 1980s, the World Bank made the establishment of EPZs a condition for many of the structural adjustment programmes that indebted Third World nations had to sign up to. In this, the Bank could rely on the pioneering work started in Puerto Rico in the

late 1940s, spread by Point Four and the Alliance for Progress and brought to perfection by UNIDO's export promotion in the 1970s. Following harsh measures introduced by the World Bank's structural adjustment programmes, the number of operational EPZs rose from 79 in 1975 to 197 in 1986, and further to 845 in 1997. The number of workers in EPZs worldwide also grew exponentially in that period: from 700,000 in 1975, to approximately 2 million in 1986, to 22.5 million in 1997.⁷⁶

Several nations established EPZs in that period, and EPZ employment rose rapidly, even in nations with socialist-leaning governments, which often had little choice but to sign up to the World Bank structural adjustment programmes. An excellent example for this is Mauritius, where an EPZ was set up by the pro-Western Mauritius Labour Party in 1970. Exploitation in the zone fuelled anti-imperialist sentiments that triggered two general strikes on the island and helped the socialist Mouvement Militant Mauricien to a landslide victory in 1982. By then, Mauritius had been tied to structural adjustment programme measures for three years already, and the incoming government soon realized that the actual sovereign was the World Bank and the International Monetary Fund.⁷⁷

Still, much of that exponential growth happened because the PRC, which did not have to shoulder a structural adjustment programme, reversed its development policy radically. A visit by Jiang Zemin to Shannon obviously influenced these reforms, which included the opening of four SEZs in 1980. Jiang was then 'senior Vice Minister in charge of the State Import and Export Administration', and many years later, he told the Irish Ambassador to China how important his stay in Shannon had been for policy measures introduced in the 1980s.⁷⁸ Jiang's statement was to some extent a polite misrepresentation, since plans for the PRC's zones had been drawn up in 1977, and the first foreign companies set up shop in the Shenzhen SEZ in 1979.⁷⁹ However, the measures introduced throughout the 1980s resembled the Irish zones, involving the absence of corporate tax waivers in favour of a flat corporate tax of 15 per cent, as well as administrative control of local EPZ authorities that extended beyond the industrial areas to workers' settlements.⁸⁰

The operations of UNIDO's export promotion in the 1970s importantly tied many developing nations to local and multinational capital, and made labour increasingly dependent on postcolonial patterns of exploitation. The triumph of the EPZ model in global light-manufacturing industries and export-oriented development agendas was finally sealed with the opening of EPZs in the PRC.

Conclusion: Capitalism in understanding decolonization and the Cold War

This chapter has shown that during the Cold War and the era of decolonization, EPZs were an indispensable tool for the United States – and the capitalist bloc in general – for promoting capitalist development policies in the Third World. As noted in the introduction, much economic history explicitly focusing on the Cold War explains the 'victory' of capitalism via the socialist bloc's failure to create a consumer culture

comparative to the heartlands of the capitalist bloc. The race for prosperity between the German Democratic Republic and the Federal Republic of Germany is often identified as a global stage, where competition between the two blocs was obvious and visible.⁸¹ That race also informs more complex analyses that consider the socialist bloc's growing debt to the capitalist bloc in the 1970s and the upheaval that the neoliberal counterrevolutions by Thatcher, Reagan and others caused in the global economy.⁸² Yet there is a blind spot in these works. As this chapter shows, the capitalist bloc could secure abundant supplies of ever-cheaper consumer goods made by industrial workers in the Third World via EPZs. At the same time, relocations from the industrial heartlands of the capitalist bloc such as New Hampshire and from important production centres in the Federal Republic of Germany and Britain provided the political means for the neoliberal crackdown on trade unions and workers in old and new core industrial sectors such as textiles, garments and electronics and increasingly services such as data processing.

Such capitalist engagement with the Third World has been noted since the 1970s by social scientists who have identified EPZs as arenas of 'super-exploitation' where wages have been insufficient for workers to reproduce their labour power. However, these analyses pay little attention to the early Cold War roots of these policies.⁸³ For this and other reasons, academics, trade unionists, politicians, workers and many others see a close connection between the spread of EPZs and imperialism, old or new.⁸⁴ Others, such as the father of the Taiwanese economic miracle, former minister and renowned member of various neoliberal think tanks, Kuo-Ting Li, or the Mauritian economist and later UNIDO EPZ-consultant, Eduard Lim-Fat, have heralded EPZs as a complete cure to the pitfalls of development in the era of decolonization.⁸⁵

To reconstruct the global spread of EPZs through the lens of the entangled, global phenomena of the Cold War and decolonization allows for a broader analytical scope of post-1945 global economic history and Cold War history. Those who wish to analyse the world's history in recent centuries inevitably position themselves within the range of general principles that have been proposed as the elementary structures of capitalism.⁸⁶ Writing about the global spread of EPZs, then, is also an invitation to go beyond the capitalist bloc's notion that such zones could offer decisive blows to the 'collectivist colossus in Moscow' or that Puerto Rico offered 'dramatic proof to the world that enlightened government planning and free enterprise are not incompatible'.⁸⁷ Such mindsets have been commonplace since the heyday of neoliberal development economics in the 1970s. But in many cases they can be contrasted with the realities of the global EPZ and SEZ regimes, past and present, that have kept the life-expectations of workers in postcolonial countries low and the fiction of capitalist progress alive in the heartlands of the capitalist bloc. Beginning in Puerto Rico, a new structure of dependent independence for developing nations was established in 1947. Developing nations that sought to build up industries to overcome dependency on selling raw materials now had a fast-forwarded road into industrialization; they only had to open EPZs/SEZs and invite in multinational corporations. When the non-aligned movement sought to tame these newcomers in the 1970s, they were outplayed again through the export promotion working group in UNIDO.

Although this might not have been intended during the Puerto Rican development programme of 1947, EPZs have helped sustain the image of capitalist growth and progress even through the crisis of the 1970s. In this way, the zones surely contributed to the Berlin Wall coming down in 1989. But the end of the Cold War did not mean the end of EPZ regimes. Instead, zones have spread ever more rapidly, as the governments of former socialist countries opened national economies and privatized public assets such as factories and machinery. In the 1990s and early 2000s, another obstacle for EPZ promoters emerged when trade unions joined a global campaign against the zones, listing the many killed trade unionists and workers' inhumane labour conditions. Their calls were echoed by the global anti-sweatshop movement, part of which was a large student campaign to prevent the sale of campus wear produced in EPZs. UNIDO, and even the World Bank, stopped promoting EPZs in the late 1990s and early 2000s. But with the recent global economic recession and what is called the 'second neoliberal revolution' in development economics, influential research groups in the Bank's public-private partnership bodies now support EPZs under the new label SEZ, claiming that such zones are part of a 2,500-year-long history of free trade.

This forging of world history and the persistence of EPZs after 1989 ultimately demonstrates that the confrontation between the capitalist and the socialist blocs, which was a defining feature of the Cold War, is an episode in a much longer and possibly much more global struggle over the distribution of wealth that has affected the lives of almost all households in the world.

Notes

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- 15 Ayala and Bernabe (2007), 88–94.
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- 18 Maldonado, A.W. (1997), *Teodoro Moscoso and Puerto Rico's Operation Bootstrap*. Gainesville: University of Florida Press, 32–45.
- 19 See Dietz (1986), 191–194.
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Decolonization and the Cold War

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PART II INTELLECTUAL ASSERTIONS IN THE ANTI-COLONIAL ERA

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CONTENTS

Series Editor Preface	vii
Notes on Contributors	viii
Foreword	
<i>Odd Arne Westad</i>	xi
Acknowledgements	xiv
Maps	xv
Introduction	
<i>Leslie James and Elisabeth Leake</i>	1
Part I Developing the Nation: Economics, Modernity and the 'State Project'	19
1 'Fantastic Quantities of Food Grains': Cold War Visions and Agrarian Fantasies in Independent India	
<i>Benjamin Siegel</i>	21
2 'The Life and Death of Our Republic': Modernization, Agricultural Development and the Peasantry in the Mekong Delta in the Long 1970s	
<i>Simon Toner</i>	43
3 Export Processing Zones, Special Economic Zones and the Long March of Capitalist Development Policies During the Cold War	
<i>Patrick Neveling</i>	63
Part II Intellectual Assertions in the Anti-Colonial Era	85
4 Class Struggle and Self-Determination at <i>Political Affairs</i>: An Intellectual History of Communist Anti-Colonialism in the United States, 1945–1960	
<i>John Munro</i>	87
5 'A Unique Little Country': Lebanese Exceptionalism, Pro-Americanism and the Meanings of Independence in the Writings of Charles Malik, c. 1946–1962	
<i>Andrew Arsan</i>	107
Part III Contesting Heritage and Identification	123
6 The Malayan Communist Party and the Malayan Chinese Association: Internationalism and Nationalism in Chinese Overseas Political Participation, c. 1920–1960	
<i>Anna Belogurova</i>	125

Contents

7	Negotiating Russian Imperial Aryanism: Soviet Oriental Studies in the Cold War <i>Hanna Jansen</i>	145
8	Grounding Ideologies: Archaeology, Decolonization and the Cold War in Egypt <i>William Carruthers</i>	167
	Part IV (Re)conceiving Sovereignty and Statehood	183
9	A 'Commonwealth Moment' in South Asian Decolonization <i>Daniel Haines</i>	185
10	Sovereignty in the Congo Crisis <i>Ryan M. Irwin</i>	203
11	Malcolm X in France, 1964–1965: Anti-Imperialism and the Politics of Travel Control in the Cold War Era <i>Moshik Temkin</i>	219
12	From Foreign Concessions to Special Economic Zones: Decolonization and Foreign Investment in Twentieth-Century Asia <i>Christopher Miller</i>	239
	Part V Defending the State: Intelligence and Violence	255
13	Archives, Intelligence and Secrecy: The Cold War and the End of the British Empire <i>Caroline Elkins</i>	257
14	Tinker, Tailor, Soldier, Subversive: India, Pakistan and the Politics of Cold War Intelligence <i>Paul M. McGarr</i>	285
	Index	303

SERIES EDITOR PREFACE

New Approaches to International History takes the entire world as its stage for exploring the history of diplomacy, broadly conceived theoretically and thematically, and writ large across the span of the globe, during the twentieth century. This series goes beyond the single goal of explaining encounters in the world. Our aspiration is that these books provide both an introduction for researchers new to a topic, and supplemental and essential reading in classrooms. Thus, *New Approaches* serves a dual purpose that is unique from other large-scale treatments of international history: it applies to scholarly agendas and pedagogy. In addition, it does so against the backdrop of a century of enormous change, conflict and progress that informed global history but also continues to reflect on our own times.

The series offers the old and new diplomatic history to address a range of topics that shaped the twentieth century. Engaging in international history (including but not especially focusing on global or world history), these books will appeal to a range of scholars and teachers situated in the humanities and social sciences, including those in history, international relations, cultural studies, politics and economics. We have in mind scholars, both novice and veteran, who require an entrée into a topic, trend or technique that can benefit their own research or education into a new field of study by crossing boundaries in a variety of ways.

By its broad and inclusive coverage, *New Approaches to International History* is also unique because it makes accessible to students current research, methodology and themes. Incorporating cutting-edge scholarship that reflects trends in international history, as well as addressing the classical high politics of state-centric policymaking and diplomatic relations, these books are designed to bring alive the myriad of approaches for digestion by advanced undergraduate and graduate students. In preparation for the *New Approaches* series, Bloomsbury surveyed courses and faculty around the world to gauge interest and reveal core themes of relevance for their classroom use. The polling yielded a host of topics, from war and peace to the environment; from empire to economic integration; and from migration to nuclear arms. The effort proved that there is a much-needed place for studies that connect scholars and students alike to international history, and books that are especially relevant to the teaching missions of faculty around the world.

We hope readers find this series to be appealing, challenging and thought-provoking. Whether the history is viewed through older or newer lenses, *New Approaches to International History* allows students to peer into the twentieth century's complex relations among nations, people and events to draw their own conclusions about the tumultuous, interconnected past.

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FOREWORD

Odd Arne Westad

One of the big questions for historians of the twentieth century is the relationship between Cold War conflict and decolonization. It is mainly a question of links and effects. For instance, did the perceived Cold War needs of the United States advance the anti-colonial cause? Some historians – my great predecessor at LSE, D. C. Watt, among them – seem to think so.¹ It was hard, they argue, for the United States to stand for global freedom against communist tyranny while being seen as upholding foreign rule abroad. Also, colonial wars produced radicalization and chaos, just the kind of element in which Soviet subversion would thrive. Some go even further: the American Revolution was the world's first successful anti-colonial war, they would argue. Sympathy with the colony would be in the lifeblood of the American Republic.²

Given US support for France and Portugal during their colonial wars in the twentieth century, it is hard to give much credence to this argument for the Cold War as a whole, even if it may have played some role in the 1940s. On numerous occasions US presidents proved that they were more than willing to prop up colonizers in the name of Western Cold War solidarity: for Washington, when push came to shove, Europe always mattered more than Africa. Some of this topsy-turvy solidarity may be explained in racial (or at least civilizational) terms: US elites felt more akin to European leaders than to African or Asian regimes during the Cold War. But western Europe and North America were also more mutually dependent: their economies mattered much more to each other than did any other region, except (perhaps) Japan.

So much for the United States: its role for the decolonization process was ambiguous (at best) and detrimental (at worst). What then about the Soviet Union? The relationship between communism and anti-colonialism is a long and complex one: Marxism and other forms of radical socialism inspired both movements, and the Communist International (the Comintern) played a key role in organizing anti-colonial resistance in the 1920s and the 1930s.³ But the Soviet Union as a state had a more troubled relationship with the opposition against colonial rule. Like the United States, its own priorities for long lay mainly in Europe. And when the Soviets started to get more involved in Asia and Africa, their assistance was linked to didactic attempts at getting adherents for their own development model. Soviet help for liberation movements undoubtedly mattered, for the Viet Minh in Vietnam, the FLN in Algeria, the MPLA in Angola or the South African ANC. But, overall, it is hard to argue that the Soviet Union played a key role in the decolonization process, as inspiration or as provider of practical assistance.

Overall, this probably means that the key links and effects ought to be sought in Europe and in the colonized world itself. For Europe, there are two big fields of inquiry