A Theoretical Synthesis of Services-Led Development and a Reformed Dependency Theory:

The Strong Case for State-Owned Service Enterprises in the Developing World

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Vienna, 10 June 2025

Omar Mohamed

Acknowledgements and Dedication

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I dedicate my thesis to Ahmed Altantawy, for inspiring me to think about it and reminding me that there is hope,

and to my mother … for everything.

Abstract

Recent decades witnessed a phenomenon of premature deindustrialization and a simultaneous growth in services partially due to services' labor-absorption characteristics, while increased digitalization led to more international trade in services. These developments posit new challenges to our classical understanding of development and establishment development theories. Joseph Stiglitz and Dani Rodrik are at the helm of Economists arguing for a services-led approach to development. At the same time, a renewal movement for dependency theory aimed at addressing the approach's criticisms is taking place but is not considering this growth in services.

In my thesis, by conducting an extensive literature review of core ideas in classical and modern dependency literature, as well as some of the most recent works at the frontier of development thinking, I go beyond existing literature and offer a theoretical synthesis that integrates the centrality of services in development processes in the developing world with a reimagined dependency theory approach. While admitting that there is no one-size-fits-all policy suitable for development, but through building on my theoretical analysis and a very brief case study of the tourism sector in Tanzania, I present the strong case for more state-owned enterprises in the service sector in the periphery.

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Introduction

In 2001, Hans Singer and Kunibert Raffer wrote: “Like the hems of skirts, mainstream development thinking is subject to ups and downs: dominant ideas are overthrown and restored after a while” (Raffer & Singer, 2001, p.32). This change in approaches to development thinking is at least in part due to changing economic conditions and to contextually and theoretically different starting points of view.

One glaring change in economic conditions that has occurred since the heydays of dependency theory in the 1960s and 1970s is the large growth of the service sector in national economies and as a percentage of the world GDP. Recent estimates show that 67% of the world GDP is in the service sector (WTO, 2023) while investments in services constitute 72% of the total value of foreign direct investments in the world (Stephenson & Xiaoning, 2024). Increased digitalization and improved technologies have also led to a significant ongoing upward trend in the international trade of services; approximately a quarter of all international trade is in services (WTO, 2024).

In the second half of the twentieth century, several prominent dependency theoreticians and aligned policymakers relied heavily, and for good reasons, on the empirically proven Prebisch-Singer Thesis (PST) (Prebisch, 1950; Singer, 1950; Raffer & Singer 2001) to explain the worsening terms of trade which economies in the Global South experience. They used PST to explain how worsening terms of trade lead to a case of divergence in development rather than to convergence or to the induction of a catch-up effect predicted by mainstream economics of the time. Two important policy implications of that era were the import substitution industrialization (ISI) and the export-oriented industrialization (EOI).

What such scholars did not foresee or at least account for, however, is the rapid growth of services and the ensuing boom in international trade in services, leaving service sector analysis completely out of their framework. Even newer works aimed at reviving dependency theory by modern dependency scholars have omitted the central role of the service sector in the economy and by consequence in development thinking leaving a large literature gap and undermining associated policy recommendations.

The growing importance of services to development in the Global South has only been acknowledged recently by prominent development theoreticians such as Joseph Stiglitz and Dani Rodrik (2024) who called for services-led development with Rodrik and Sandhu outrightly claiming that "The future of developing countries lies in services" (Rodrik & Sandhu, 2025, p.1).

Research Purpose and Motivation

In my thesis, I aim to theoretically synthesize the growth of the service sector, and its central importance to development processes in the Global South, with a reformed dependency theory-based framework. The aim of my thesis is not only theoretical or solely to identify research gaps or criticize established theories, but it is twofold:: **First I try to offer a theoretical framework that is fit to address the most pressing issues of development of our time from the perspective of the Global South for the Global South while keeping in mind that this framework must be embedded in the urgent practical need to find new policy solutions**. Second, I do not aim, nor do I claim, to come up with a one-size-fits-all recommendation as my sub-title may incorrectly suggest at the first glance, but rather I try **to offer a direction of a general and innovative recommendation of an economic policy that may be implemented in different ways depending on the relevant variables given.**

Paul Baran and Eric Hobsbawm (1961) rightfully criticized Rostow's popular theory "stages of economic growth" by claiming that it "overlooks the obvious fact that, however universal the technical problems of economic growth may be, different social types of economic organization can, or must, solve them in very different ways". It is from this starting point: the acknowledgment of existing differences, of progress, of change, and of the need to constantly adapt our theoretical approaches and practical solutions that I start my analysis.

Despite its usefulness for historic analysis and for the identification of external factors that may be impeding growth, a classic dependency theory framework remains severely limited in its capacity to recommend modern policy solutions. It is rightfully criticized for its "fuzzy" approach and lack of clear mechanisms (Stallings, 2020) its overemphasis on external factors impeding growth, its omission of inner class struggles, or at least its confinement of class struggle analysis within the realm of analysis of elite relations between those in the periphery and those in the core (Munck, 1984), and, I add, its lack of integration of changing but central economic conditions such as the growth of the service sector and the international trade in services, as well as its almost complete disregard for gender issues (Antunes de Olivera, 2021) and environmental concerns.

Completely rejecting dependency theory for these reasons would still be a grave mistake. The dependency framework remains very relevant and offers a valuable approach to understanding development (and underdevelopment) as my thesis aims to demonstrate. The classical framework, however, is in dire need of a renovation movement that addresses its main criticism, draws from its crucial historical analysis, and through a better understanding of contemporary conditions, enables it to offer effective policy solutions by equipping it with the pragmatism and clarity it has still been missing. My thesis, builds on existing literature and contemporary works and offers a newer mode of analysis and a new policy recommendation for a much needed structural change in the Global South.

Methodology and Paper Outline

My methodology is simple, I perform a primary and secondary qualitative literature review in two main areas: classical and modern dependency literature, followed by a review of some of the newest works on development and the central role of services by two prominent economists: Jospeh Stiglitz and Dani Rodrik. This is not a random choice of literature to review, I demonstrate that each of these two areas of literature on their own is important, but I argue that each independently is severely lacking. A comprehensive modern and practical framework for development in the Global South would best integrate key insights from both. I do just that after the literature review in a crucial chapter where I integrate important conclusions from the two areas and add some more, offering a vision for an improved and more practical dependency theory framework. **My main argument** using the reformed dependency theory framework is that: **services are a cornerstone for the future of development in the Global South. The growth of services and the potential for increased service exports represents a change in the external conditions economies in the Global South find themselves locked in, potentially offering a path to development. However, the path to development through services remains difficult and dangerous. Their governance and ownership structures, among other factors such as access to technology, remain key determinants of whether they worsen old dependency patterns or genuinely offer a chance to break dependency cycles towards a more inclusive and sustainable development path.**

Finally, I build on the earlier parts of the thesis to suggest an important policy recommendation. I present the strong case for state-owned enterprises in the service sector as much as possible where it is profitable, without necessarily forcing one business model everywhere or choosing specific sub-sectors for state investment. By introducing a top-down approach that still attributes importance to profit, but one which is rooted in economic, social and ecological considerations and with developmental goals in mind, states in the Global South have a chance to both generate wealth and keep it in the local economy as well as to improve social conditions; this can only be achieved through a parallel concentration on technological progress, education, skill improvements and improved productivity in the service sector and other sectors. I also briefly address key issues such as moral hazard and adverse selection in services and how they can be mitigated in case of government ownership as well as the important issue of undermined competition.

Literature Review

Classical Dependency

Origins of Dependency

The origins and early formulative ideas of what came to be known collectively as "dependency theory" by the 1960s and 1970s were both a response to dominant development theories of the time and a natural result of empirical research on trade relations in the late 1940s and early 1950s. Hout (2023, p.162) claims dependency theory "challenged the dominant Western understandings of development, which were assuming that the lack of development in the countries of the global South was a consequence of the persistence of traditional structures and institutions in these countries". Indeed, despite even the most neoliberal arguments, it is now hard to believe that the lack of development in the Global South can be merely attributed to traditional structures and institutions.

At the time, however, dominant ideas in mainstream economic thinking were those pushed by modernization theory and its main proponents. Such ideas included a belief in the inevitability of economic convergence, that is the belief that less developed societies are bound to "catch-up" if they follow the presumably linear Western model of development. These models also entailed a certainty of an economic and social spillover from concentrated development in core regions and industries that will uplift the less developed.

This approach to development was criticized by early dependency theoreticians who sternly but sensibly **rejected the idea that the western model of development can be copied and emulated elsewhere**. Andre Gunder Frank (1966, p.18) famously pointed out: "neither the past nor the present of the underdeveloped countries resembles in any important respect the past of the now developed countries. The now developed countries were never underdeveloped, though they may have been undeveloped" instead he called for **a historical analysis of underdevelopment** claiming: "We cannot hope to formulate adequate development theory and policy for the majority of the world's population who suffer from underdevelopment without first learning how their past economic and social history gave rise to their present underdevelopment" (Frank, 1966, p.17).

Myrdal (1944, 1957) and Hirschman (1958) **warned against growth concentration in one part of the economy**. Myrdal, in his theory of cumulative causation, argued that an unbalanced growth model in a free-market risks causing more polarization and worsening inequalities as an overconcentration of economic activities in one sector or region will lead to a movement of people and capital from the periphery and towards this center increasing the gap between the two in the process (Myrdal, 1957).

Dependency thinking also strongly rejected adopting Kuznet's (1955) inverted U curve to be valid for analysis in the developing world. Kuznet's analysis argued that income distribution is unequal in the process of development as traditional society dissolves, but becomes more equal in mature societies (Kuznets, 1955). According to Raffer and Singer (2001), Kuznets himself has warned against using his historical analysis on contemporary developing economies. The positive trickle-down effect projected to be induced by inequality in some theories has been convincingly countered by other authors in important works such as Nurkse (1952) and Adler (1952).

Characteristics of Dependency

It can be seen then that early dependency thinking rejected the idea that the reasons for underdevelopment can be limited to the internal factors of the state such as traditional institutions and mode of governance. It also rejected the blind belief in automatic convergence and warned instead against inequality induced by concentrated growth. It also called for historical analysis for the reasons of underdevelopment and vehemently rejected the idea that a Western model of development such as Rostow's stages of growth can be copied and emulated in the developing world.

Dependency theory also centralizes the effects of external factors and actors. For example, Theotonio Dos Santos (1970, p.231), a prominent dependency thinker defined dependence as: "a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected". In the same light but without identifying one specific external actor, Cardoso and Faletto (1979) wrote that "a system is dependent when the accumulation and expansion of capital cannot find its essential dynamic inside the system". Cardoso and Faletto were also unique dependency theoreticians at the time but inspiring to later works within dependency in the sense that they "advocated for a historical-structural approach which conceives of the global and the national/local dimensions of capitalism as mutually constitutive." (Madriaga & Palestini, 2021, p.3) Their work bridged together the analysis of external factors impeding development but integrated the role of internal capitalist structures in enabling and supporting this external influence.

Duvall and Freeman (1981) define a dependent society slightly differently by going beyond economics and capital in arguing that: ''dependent society is one where economic productive activity, and the structure of social relations are largely reflections of processes elsewhere in the world". Myrdal (1957, p. 10) had also argued for the need to move beyond economics to understand the full extent of dependency relationships claiming that there is a need to expand our analyses to distinguish between "relevant" and "irrelevant" factors instead of solely distinguishing between the "economic" and the "non-economic" (Myrdal, 1957). Furtado (1976) specifically mentions cultural dependence (with economic impact) as the essence of dependence, by that he meant: "the forming of consumption patterns from outside, which does not need foreign direct investments and cannot be abolished by economic policy alone" (Raffer & Singer, 2001, p.42).

In his PhD dissertation, Samir Amin (1956) made a clear distinction between two parties in dependency thinking: those in the center and those that are underdeveloped. He coined the term "unilateral adjustment" meaning that societies and economies on the periphery are constantly forced to adjust to the needs of the core, whereas the core or centers do not have to adjust to the needs of the periphery representing a strong hindrance to the development processes of the underdeveloped. These ideas stayed with Amin and eventually inspired his concept of "delinking" (Amin, 1990) where he suggested a more active stance for the underdeveloped economies to reject to the extent possible external hindrances on their economies and concentrate on domestic development through more local ownership, a better retention of wealth and a more equitable distribution of it.

Prebisch-Singer Thesis

A cornerstone of dependency analysis remains the Prebisch-Singer Thesis. Raul Prebisch (1950) and Hans Singer (1950) separately but simultaneously reached the same conclusion: in the long term, the prices of primary goods decline relative to the prices of manufactured goods. The main explanation behind the phenomenon is found in the differences in income elasticities of high value-added goods versus low value-added goods.

This simple finding, widely verified since then (Harvey et al. 2010), has significant implications on development. The initial conclusion from PST is that dependent states in the periphery, which rely on exporting primary goods, will increasingly be worse off in terms of their trade relations with developed states which produce manufactured goods. The gap between the core and the periphery widens, and divergence occurs.

An excellent reflection and further implications of PST with direct implications on my thesis are detailed in Raffer and Singer himself published over 5 decades after his initial findings (2001, p.18):

"The PST argues that one must also include the possibility that the fruits of technical progress are differently distributed in different types of countries. Specifically, the PST argues that there is a tendency for the results of technical progress to be retained in the richer countries in the form of higher incomes, while the benefits of technical progress in the export industries of poorer countries result mainly in lower prices."

Technological progress then, in the developing world, until a certain point can lead to an increased supply but lower prices. Whereas technological progress in the developed world leads to retaining higher incomes. There are two main takeaways from this important implication: first: this is not an argument against the pursuit of technological progress, but it is to highlight the fact that **limited technological progress on its own may not necessarily close the gap or lead to convergence. Second, competition, even with technological progress, may lead to a race to the bottom and undermine potential gains for the periphery**. Competition may lead to better technology, but the persistence of the competition itself may serve to evaporate any comparative gains through technological progress in the periphery due to lower prices.

Raffer and Singer (2001, p.19) continue: "The argument is that, in the case of primary commodities and simple manufactures, there is more intense competitive pressure in world trade forcing exporters to pass on increases in productivity to consumers, whereas in the case of the higher-technology manufactures exported by richer countries stronger labor markets combined with a cost plus marking up system of prices ensure that gains from productivity accrue more to the producer."

While their analysis and theory focused solely on commodities and manufactured goods with an emphasis on international trade and competition, there is no reason to assume that the logic of their findings is limited to international markets or to commodities and primitive manufacturing. Competition within a national economy can induce the same impact.

Their policy recommendation through reflections on PST is for developing economies to: "try to create different and more dynamic comparative advantages in higher tech manufactures or services. Otherwise, they may well be caught in the trap of deteriorating terms of trade and may be at the wrong end of the distribution of gains from trade and investment." (Raffer and Singer (2001, p.25). I later use these findings *inter alia* and expand on them to justify the reasoning of why a model with less competition, more government ownership in services and artificially induced incentives for innovation may be more beneficial in the service sector in the periphery.

Modern Dependency Theory

Dependency as a Research Program

While dependency theory has been largely neglected and excluded from the mainstream economics and development thinking since the 1970s (Booth, 1985; Kufakurinani et al., 2017), Madriaga and Palestini (2021) offer three arguments why they believe dependency theory is still a relevant and useful tool for the study of the global political economy, first: dependency theory's primary focus on the study of inequalities between actors and sectors of the global political economy which extends beyond structural economists approach and entails different levels of analysis (national, regional, global); second: due to dependency theories capability of connecting the study of capitalism at both the national and international level bridging together the two subdisciplines: comparative political economy and international political economy; and third and perhaps most importantly: it is a perspective on contemporary capitalism born from the periphery and for the periphery.

If dependency theory is so useful then, why has it fallen out of fashion? One explanation is offered by Kvangraven (2020). She argues that "dependency theory" is seen as a collection of competing theories that do not always fully align with one another, and: "Despite the common ground that can be identified across the competing dependency theories, little effort has been directed towards identifying the common core of the family of theories" (Kvangraven, 2020, p.77). This argument is echoed in Stallings (2020) who additionally claims that dependency theory is seen as too "fuzzy" without clear mechanisms that explain how dependency manifests in practice.

Kvangraven's paper in 2020 proposes a solution: to treat dependency as a "research program" following Lakatos' (1978) definition of what constitutes a research program. Kvangraven's approach does not attempt to define dependency theory using a single element but rather through the combination of several of its key elements. She identifies **four essential characteristics for a dependency research program**: "**1) the global historical approach; 2) economic theorizing that addresses the polarizing tendencies of capitalist development; 3) the attention to structures of production; and 4) the attention to the constraints that result from being a peripheral economy in the global economic system**" (Kvangraven, 2020, p.81).

Kvangraven's approach is certainly very useful and equips dependency analysis with some much needed conceptual and theoretical clarity. It still does not necessarily offer a toolkit for explaining how dependency works in practice and is not necessarily solution-driven; its emphasis is more on understanding how we got here rather than how to pave a way forward. Nevertheless, it remains the best and latest starting point if we are to further develop a comprehensive framework with the classical components of dependency theory at its core.

Barbara Stallings' "Dependency Mechanisms"

Another key scholar who successfully cleared out some of the fuzziness of dependency and whose work certainly fits the research program outlined by Kvangraven is Barbara Stallings. Starting from the theoretical and practical need to understand different dependency forms and how dependency can evolve over time, Stallings' (1992; 2020; 2021) work is transformative for how dependency analysis can be used. She recognized that dependency analysis since the 1970s has hastily incorporated different groups of elements that include: economic mechanisms such as trade relations and international investment (FDI, bonds, loans), political relations (military and diplomatic) between dominant and dominated countries, as well as an affinity between elites across the North-South divide, in addition to an increasingly more important element of soft power and a growing role of multinational institutions in creating and maintaining or deepening dependency relationships.

She grouped all these elements into three categories that can be used to identify and to some extent measure and categorize dependency relationships. These three groups are: **Leverage, Linkage, and Markets.**

Markets

Stallings' market group builds on the ever-relevant conclusions reached by the PST with regards to trade, the position of economies on the periphery as price takers and the vulnerability of developing markets to price shocks and difficulties they may face to export to the core due to protection measures in place: ‘’Raw materials are particularly susceptible to price shocks, while industrial exports can face a challenge through protection. Diversification provides shelter from trade shocks, but developing countries tend to be less diversified” (Stallings, 2021, p.11).

Stallings expands beyond the PST to make room in her analysis for the financial markets and the terms of borrowing: “The importance of financial markets is related to the trade balance but also to past borrowing patterns, since new borrowing may be required to service old debts. Like terms of trade, terms of borrowing – interest, fees, maturity – are largely determined exogenously” (Stallings, 2020, p.11); risk premiums and high interest fees render access to financing a lot harder and a lot more expensive for already struggling, vulnerable or underdeveloped economies on the periphery. Such extra fees also serve to generate a significant financial return to the lender which is often the core at the expense of the periphery, increasing the gap between the two and rendering economies in the developing world ever more dependent on the already-developed economies.

Leverage

Stallings (2020, p. 12) defines leverage as: “mechanisms whereby economic or political actors specifically set out to influence the behavior of others – usually those who are less powerful. It involves the direct use of power, with a promise of a reward (or a threat of punishment) for carrying out (or not) a desired action”. She offers three examples of leverage: hard military power, covert intelligence operations and economic forms of leverage. Economic forms of leverage are the most used today and include the provision of access (or not) to markets, or access to financing. Stallings continues to argue that financial leverage is most useful “when resources are scarce, creditors are unified, and the incentives they offer are credible. The best-known kind of economic leverage in the postwar period has involved conditionality bargains with IFIs, especially the International Monetary Fund (IMF) and the World Bank” (Stallings 2020, p.12).

Linkage

In her grouping of linkage elements, Stallings was drawing on the groundbreaking work of Cardoso and Faletto (1979) in which they drew attention to elite-elite relationships and connections between those in the dependent economy and those in the hegemon: "There is no metaphysical relation of dependence between one nation and another, between one state and another. These relations are made possible through a network of interests … that bind some social groups to others, some classes to others" (p. 173).

Linkage is the alignment of the interests of both the dominant and the dependent so those in the dependent state would willingly do what is in the best interest of those in the dominant state. Stallings (2020) defines linkage as: ''the set of relationships – based on ideas, education, employment, living experience – whereby actors in dependent countries come to identify their interests with those of a more powerful country.'' (P.13)

These three groups of mechanisms allow us to better *see* dependency relationships; measure them and understand how they evolve over time. Stallings put her framework to excellent use in her analysis of Chinese-Latin American political and economic relations.

Stallings' mechanisms, Kvangraven's research program, and the PST are all simultaneously products of, and contributions to, the body of work that can be called dependency theory. Each of these enable us to better understand development and underdevelopment and highlight key ever-relevant issues. A classical economist's perspective, in so many ways a naïve and an exclusively western perspective, would miss so much of what these authors highlighted and would fail to understand the issue of underdevelopment from the perspective of the periphery even at a very basic level, and by consequence would fail to offer adequate policy solutions.

Services-Led Development

The growing importance of services and the emphasis on services-led-development has somehow either been ignored or missed by contemporary and classical dependency theoreticians alike. In recent years, an increasing number of prominent economists outside of the dependency school have started to call for explicit strategies towards services-led development in the developing world.

Premature Deindustrialization

Rodrik (2016) noticed a phenomenon particularly evident in the developing world which he referred to as “premature deindustrialization” in the prior three decades: “countries are running out of industrialization opportunities sooner and at much lower levels of income compared to the experience of early industrializers” (Rodrik, 2016, p.1). This deindustrialization trend is visible in both employment and output and is most noticeable in Latin America and Sub-Saharan Africa. Since manufacturing is typically seen as a catalyst for development and an absorber of labor, a premature deindustrialization trend is particularly dangerous for the Global South. Rodrik’s conclusion then was that: “In the absence of sizable manufacturing industries, these economies will need to discover new growth models. One possibility is services-led growth.” (Rodrik, 2016, p.29).

A Decline in Manufacturing, a Future in Services

In an important recent work, Rordik and Sandhu (2025), in their paper titled: Servicing Development: Productive Upgrading of Labor-Absorbing Services in Developing Economies, argue that because modern manufacturing has become very dependent on skilled labor and capital intensive equipment, and since competition in the global markets now require using frontier technologies and an adherence to quality standards which developing countries would struggle to match at their levels of technology or through low-skilled labor-intensive manufacturing, the manufacturing sector in the developing world is now generating very little employment. This change in manufacturing can serve as an explanation for Rodrik's earlier premature deindustrialization observation.

For the developing world, the future of development, they contend, is now in services. In that direction, they call for urgent government strategies to increase productivity in services: "if we are right about the eroding power of industrialization as a growth strategy, there is no alternative other than making services productivity an explicit government priority". (Rordik and Sandhu, 2025, p.3).

A similar essay by Rodrik and Stiglitz (2024) argues that the comparative advantages some developing countries had through industrialization were undermined by changes in manufacturing processes leading to a drop in the economic growth rates of the developing countries in the years before the Covid pandemic. This lower growth, they contend, exacerbated the already existing debt-problems of developing countries and low- and lower-middle income countries lost access to financial markets. While an increase in the income of developed countries increased the demand for services relative to the demand for manufactured goods. These changes along with climate change induced damage to the agricultural sector in many developing economies, in addition to the imperativeness of the development of new technologies as a precondition for competitiveness in manufacturing have all disadvantaged the developing world. These changes in economic conditions call for "**a strategy of economic development focused directly on structural transformation**" (Rodrik & Stiglitz, 2024, p.3). This structural transformation which they call for rests on investments in the green transition and in services with a particular focus on improving productivity in services and investments in labor-absorbing services. This structural transformation, they argue, will not be fostered by markets on their own: "**Markets left to their own devices do not foster**

the kind of structural changes needed on either front. In general, structural transformation is impeded by credit and risk market failures, coordination failures, externalities, and learning spillovers", instead they call for a public vision supported by tangible public support: "That is why the most rapidly growing economies of the past all relied heavily on industrial policies promoting productive diversification and the growth of new industries. Such barriers are, if anything, even greater in the transition to green industries and productive, labor-absorbing services. Hence private markets and entrepreneurship will need to be augmented by a public vision and a supporting set of public incentives, inputs, and services" (Stiglitz & Rordrik, 2025, pp. 11-12)

What Stiglitz and Rodrik suggest goes hand in hand with the aim of the thesis: to offer practical solutions with the aim of inducing a successful and equitable structural change without necessarily having to align with mainstream economics even if we diverge slightly on what this strategy exactly ought to be. For example, they point out that "The current focus in development economics on randomized controlled trials (RCTs) and other rigorous methods of causal inference has obscured the importance of structural change" and "It would have been impossible to conduct RCTs to inform the choice of the big strategies that really mattered: policymakers gleaned what they could by carefully making inferences based on theory, history, econometric studies, and the limited experiments that could be conducted" (p.3). This is not to undermine the importance or usefulness of RCTs but to argue for the validity of structural change based on evidence from history, theory, and econometrics. This is exactly what this thesis attempts to do.

It is important to mention that Rodrik and Stiglitz are not the first or the only economists to call for services-led growth models in the developing world. Other scholars such as Riddle (1986) had already called for development strategies centered around services almost four decades ago in a work that was highly innovative at the time but never received the attention or recognition it deserves.

The number of contemporary works calling for shift towards services-led-development is increasing and spreading for example Rajan and Lamba (2024) argue that the future of development in India cannot be in replicating traditional growth models which focus on exporting manufactures but is rather in high-value tradable services. It is hard to imagine that this movement calling for structural change in the direction of services-led-development to not take momentum and become even more important in the coming years.

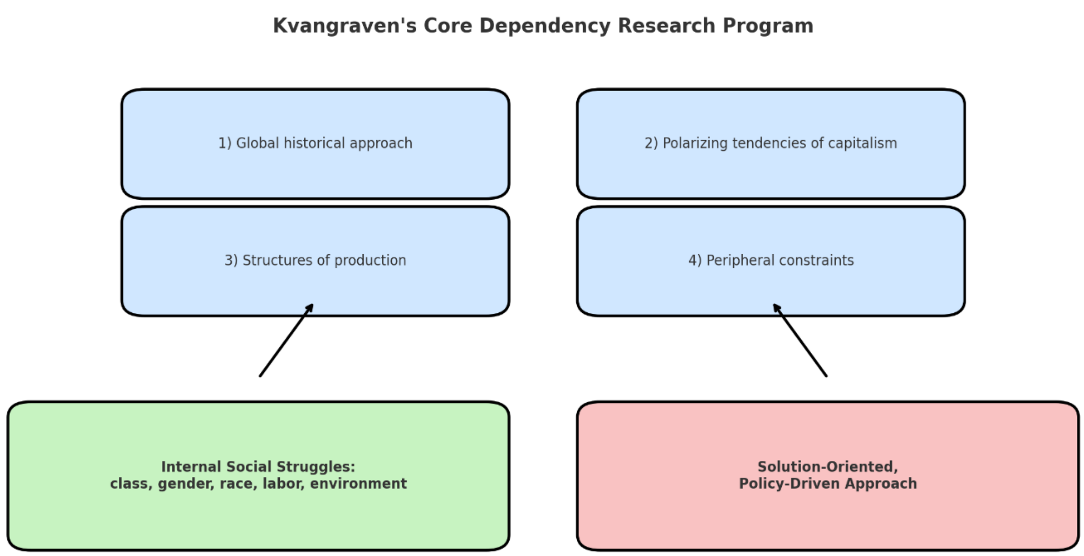
Services-Led Development in a Reformed Dependency Approach

The recent compelling conclusions made by Rodrik, Stiglitz, and others indicate that the future of development in the periphery—that is, away from the frontiers of technological progress—is undoubtedly in services. While they support their arguments with historical analyses and call for structural change backed by public support and investment, their approach misses critical insights that only a dependency theory lens can provide. Their suggested development path still takes place within an open global economy, and a services-led model in the periphery will remain vulnerable to external pressures and dependency mechanisms.

On the other hand, as I have demonstrated in the last chapter, classical dependency theory offers a valuable toolkit for understanding the reasons for underdevelopment from the perspective of the periphery. However, it still leaves much to be desired. Stallings' mechanisms and Kvangraven's research program were steps in the right direction, preserving the core of dependency theory while clarifying the framework behind this group of theories. Yet, like the ever-relevant Prebisch-Singer Thesis, they fail to properly integrate the central role of services in the future of development. They also do not sufficiently address other key criticisms of dependency theory, such as its neglect of inner class struggles, its omission of race and gender analyses, and its failure to consider environmental concerns. Another issue with many dependency approaches is their preoccupation with understanding how we got here, rather than with devising policy solutions or charting the necessary structural changes for the future.

Two New Pillars for the Dependency Research Program

I argue that while Kvangraven's dependency research program is excellent for historical analysis, if we are to use it as a foundation for development policy, it must make room for two additional pillars. The first is to ensure that dependency analysis is **solution-oriented and policy-driven,** such an approach would allow the integration of the growing service sector at the heart of development discussion even from a dependency perspective. The second new pillar **would be an analysis of inner social issues, particularly inner class struggles, labor rights, race and gender inequalities**, **and environmental concerns** regardless of whether these issues are caused, maintained, or exacerbated by external relations or dependence. In truth, this second new pillar is not necessarily concerned with "dependence" or external dynamics, but it is pivotal for any practical policy purposes.



This diagram shows how my thesis expands Kvangraven's 4 core pillars with two additional pillars for a more inclusive, policy-focused framework.

In the same light our new dependency analysis must factor in the importance of services as a potential catalyst for growth in the developing world. However, while the growth of services and increasing ease with which developing and developed states are able to trade in services may represent a change in the external conditions in which economies in the periphery operate and therefore may potentially offer a chance to break dependency cycles, a dependency theory approach would certainly warn that such changes may also operate in the opposite direction and reinforce same old dependency patterns in new ways as the following table demonstrates:

Dimension	Classical Dependency Theory	Updated/Expanded in My Synthesis
Core Concept	Periphery adjusts to the needs of the core; wealth flows from Global South to North; focus on primary commodities and manufacturing.	Recognizes the rise of services as a core sector; sees how services can both perpetuate or break dependency depending on governance and ownership.
Class Struggles	Often secondary; focuses on external dependency.	Elevated to central concern: studies periphery elite capture and advocates for workers' rights; labor conditions and social inclusion within the service economy.
Gender Struggles	Largely ignored.	Explicitly integrated
Environmental Concerns	Not addressed.	Recognized and addressed, emphasis on need for sustainability of new service-led growth, mitigation of climate change vulnerabilities.
Service Sector Focus	Limited mention; industrial goods prioritized.	Services as the future growth path: not just fallback but a chance to redefine development yet still at risk of new dependency forms.
Ownership & Wealth Flows	Focused on North-South trade imbalance and foreign investment capture.	Extends to ownership of services: local vs. foreign ownership; how tech transfer and reinvestment shape local economies.
Policy Implications	Self-reliance, delinking, ISI/EOI; often vague on implementation.	Advocates for context-specific, inclusive policies: state-owned/cooperative service enterprises, technological upgrading to avoid new dependencies, gender, class, and ecological consideration.
Beyond Dependence	Focused on external dependency as primary problem.	Broadens scope to internal social struggles (class, gender, labor rights, environment), crucial for equitable policy and structural transformation.
Solution-Oriented	Critique-heavy, less pragmatic (especially in classical works).	Makes solution-driven recommendations: reformed dependency analysis as a policy tool.

Services as a Double-Edged Sword at the Heart of Development

While services are increasingly recognized as the future of development, their governance and ownership structures remain the key determinants of whether they perpetuate old dependency patterns or offer a genuinely inclusive and sustainable growth path. A growing service sector does not necessarily translate into development: if wealth is repatriated and workers are forced to work informally, without their rights upheld, then this growth merely deepens dependency rather than undermines it. Moreover, if the service sector is dominated by foreign-owned firms that fail to foster meaningful technology transfer or skill-building among local workers, such economic growth is likely to be short-lived and will not translate into genuine development. Similarly low skill, technologically primitive services exports (perhaps with the notable exception of tourism) may follow the same logic presented in the Prebisch-Singer Thesis creating progressively worse trading conditions between the core and the periphery. Service production may also lead to environmental harm, maintain, worsen or improve gender and race inequalities; a mechanized dependency framework with the renovated research program would enable for better analysis of said issues and allow for the design of the necessary relevant policies depending on the context and given variables.

Tourism in Tanzania: A Brief Case Study

In this brief Chapter, I build on previous research to analyze Tanzania's tourism sector through the lens of the developed dependency framework. In 2024, Tanzania's tourism sector constituted 24% of Tanzania's exports and contributed 17.2% of its GDP (Tanzania Investment and Consultant Group, 2025). Despite the importance of Tanzania's tourism sector to the national economy it is dominated by foreign owned enterprises.

An important study by Kinyodo and Pelizzo (2015) investigated the relationship between the development of the tourism industry, economic development, employment and income inequality in Tanzania, specifically it aimed to find out whether tourism-induced growth contributed to a reduction in poverty and inequality. The research findings concluded that development in tourism is indeed responsible for growth in employment and aggregate wealth but did not improve the distribution of wealth. Despite an impressive growth of the tourism sector in the country, the level of income inequality remained identical to its previous levels two decades prior. The authors use earlier research by Ankomah and Crompton (1990) to show that up to 60% of the tourism associated profits were repatriated.

Despite the tourism sector's growth and importance in the Tanzanian economy, workers in the tourism sector were the lowest paid workers of any sector in the Tanzanian economy; not only that but female workers in the sector received substantially lower wages than their male counterparts (Luvanga & Joseph, 2003; National Bureau of Statistics, 2013; Kintodo & Pelizzo, 2015).

The Tanzanian tourism sector is one case among many in the developing world of a booming service sector where wealth is not captured by the dependent society nor is it reinvested in the local economy. The growth in the service sector in Tanzania (its income in real terms tripling over the period of Kintodo and Pelizzo's study) did not lead to alleviation of poverty; and the workers within that profitable service itself remained the lowest paid among workers of any sector in the country. It is a form of growth that generated employment but which did not ameliorate inequality nor did it raise the standards of livings of Tanzanians.

Kintodo and Pelizzo (2015) identify three reasons why this was the case: the first is "vertical integration" they claim that "international tour operators use their own charter flights to bring tourists to a destination, they use locally their own means of transport, they accommodate tourists in hotels and resorts that they own and none of this contributes much to local economy." (p.74). Since the majority of tour operators in Tanzania are foreigners, this serves to deepen the dependency of the Tanzanian economy on the foreign owners to employ Tanzanian citizens and to generate some funds through the foreign managed tourism, even if this model is clearly not very beneficial to the average Tanzanian citizen. The second reason they identify is foreign ownership and the repatriation of profits generated through accommodation and tour operations even in cases where there is no vertical integration. The third reason is the poor working conditions and the fact that most workers in the tourism sector in Tanzania are hired in low-skill level jobs and are very poorly paid.

This model of services-led growth is in fact reinforcing dependency mechanisms through services and is in dire need of structural change. The following chapter offers policy recommendations not specifically designed for the Tanzanian case study but which draw from the theoretical synthesis performed in this paper and are generally relevant to developing countries in the Global South.

Policy Recommendation: The Strong Case for State-Owned Service Enterprises in the Developing world

If the future for development in the developing world is in services as it has been demonstrated through the earlier chapters, what kind of policy recommendations would my reformed synthesized approach to dependency theory recommend?

A- From the premise presented by Stiglitz and Rodrik (2024) that a structural change is needed and B- that said change would be impeded by credit and risk market failures, coordination failures, externalities, and learning spillovers without government intervention; and C- also from Rodrik and Sandhu's (2025) call for government support to increasing productivity in the service sector, and D- from the established modified dependency research program that centralizes investments in services as a path to development and warns against foreign ownership of service sector enterprises and the potential for the repatriation of wealth; and E- from the understanding that service sector employment in the developing world is often informal characterized by poor security, gender inequality disfavoring women, and poor pay, F- and learning from the lessons of PST and the understanding that competition between businesses in the periphery away from the technological progress frontier may lead to lower prices and more divergence, andG- and integrating Samir Amin's call for delinking as much as possible, and H- building on the brief case study of Tanzania's tourism sector and from the understanding that unregulated dependency-driven growth does not necessarily lead to convergence, development or equality, the general policy recommendation would undoubtedly be to call for more ethical government ownership for-profit enterprises in the service sector. My approach while leaving flexibility for the application of the recommendation in different societies depending on different relevant factors, calls for a top-down approach, which does not prioritize profit even if it seeks it, invests in labor-friendly technology while attempting to improve labor productivity, and which would formalize the sector if possible and in the process ensuring workers' rights and security, raises wages to at least the legal minimum wages in respective states, and which would ensure gender equity as much as possible and would not ignore environmental concerns. Government ownership and investments in services can serve to direct growth processes in favorable directions while ensuring that wealth is reinvested and better distributed leading; it can also lead to availability of financing for the periphery to invest in other sectors such as industry or agriculture while limited their dependence on the core, further accelerating the delinking process, and potentially leading to convergence and the cumulative benefits that would come with it.

It may be true that competition in the economy can be undermined by state ownership; however, it would be naïve to assume that pre-existing modes of competition in services in the developing sector are fair or competitive before the government enters the market as an owner. There are rapidly expanding trends in key service sector areas such as digital retail where competition is already heavily skewed in the favor of giant international corporations in many economies in the periphery. The important lessons drawn from the Prebisch-Singer Hypothesis also inform us that competition and limited technological progress can very likely lead to lower prices and worse trade positions for economies in the Global South. That is not to say that there should not be economic social protection for smaller local service providers, or to never leave room for foreign investors in services where the societal and economic benefits of such investments in the sub-sector, through access to technology, education or other benefits, outweigh the disadvantages of foreign ownership or profit repatriation. The aim of such policies is to be pragmatic, efficient and equitable, there is no one-size-fits-all model for all sub-sectors or all societies.

I intentionally refrain from providing a more detailed model that may not be applicable optimally everywhere (e.g I do not call for specific modes of ownership, or for particular sub-sectors to invest in, I also do not specify which state entities should run such enterprises and how) instead I intentionally keep my recommendation to a direction that is valid everywhere in the periphery and which local decisionmakers, with the dependency framework laid out in the thesis on mind, can tailor more customized models according to their own economy, comparative advantages, capabilities, labor force, consumer preferences and so on.

This model, naturally, requires ethical good governance as a perquisite which may be a limitation in many societies around the world. Typical service-related problems such as moral hazard and adverse selection will still persist and may intensify; solutions to address these problems would need to be developed and would likely include a mixture of review mechanisms and anti-corruption measures.

There is, however, no alternative for increasing labor productivity in services and absorbing even the low skilled labor into services; introducing and investing in labor-friendly technologies remains a priority. While raising the skills of the population through education and learning is both a goal and a means to sustainable development.

Conclusion

The thesis identified an important gap in development studies and, in dependency literature, namely the growth of services and in the increase in international trade in services. After conducting a thorough literature review of both: contemporary theories spearheaded by Rodrik and Stiglitz explaining the receding role of industry and the growth of services and calling for services led development in the developing world, as well as classic and modern dependency literature, I attempted to offer a theoretical synthesis of a reformed dependency framework that addresses different criticisms with the contemporary development theories at the frontier calling for a services-led approach to development.

This thesis has argued that, from the perspective of the periphery, the large share of the service sector in national economies and the increase in trade in services facilitated by increased digitalization and access to technologies presents both challenges and opportunities for breaking out of historical dependency patterns.

Central to my analysis is the ever-relevant Prebisch-Singer Thesis. While initially focused on primary commodities, key insights about deteriorating terms of trade and the capture of technological progress by the core remain crucial today. These patterns, and others found in different elements of dependency literature, continue to shape the dynamics of services-led growth in the Global South, cautioning against unregulated market forces that might simply reproduce old forms of dependency in new ways.

This work also built on Kvangraven's idea of dependency as a research approach, which offers a good starting point for clarifying dependency and using the theory as a tool for historical analysis. However, I argued that this approach must be expanded to include two new pillars: a solutionsoriented policy-driven focus that does not aim to solely understand how we got here, but also serves to shape a way forward, in addition to the need to integrate an analysis concerned inner social issues such as class struggles, gender inequality, and environmental degradation even when such issues are not necessarily due to an external party or factors even at the expense of slightly shifting dependency theory away from "dependence". These alterations would serve to transform dependency analysis from a purely historical tool to a dynamic framework much better equipped to propose policy solutions.

The brief case study of Tanzania's tourism sector illustrates the risks of leaving service-led growth to unregulated markets. Despite impressive growth, workers remained underpaid, gender imbalances persisted, and problems of inequality remained at the same level they were before growth kicked off decades earlier, in summary growth did not translate to sustainable development.

I conclude by arguing for more state-owned service enterprises, in a top-down approach which can help ensure that the gains from services-led growth are reinvested locally and equitably distributed. This approach must be tailored to local conditions and capacities and would serve to mitigate dependency elements, has the potential to generate surpluses and indeed induce a spillover benefit to other sectors in the economy.

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