

# WAR AND THE OIL ECONOMY OF ANGOLA – DISPARATE EXCHANGE IN THE CONTEXT OF AFRICA

## 1. Introduction

Below I propose to discuss the use of the trading mechanism of disparate exchange by the rulers of one single African country, i.e. Angola. The Angolan civil war has been a very typical instance of disparate exchange, in the sense that both sides in the civil war have relied on the exports of one single raw material each – crude oil in the case of the Angolan government, diamonds in the case of the rebel movement UNITA –, in order to finance their respective war efforts. While the illegal export of diamonds and the purchasing of weaponry with diamond income have become typical for the mode of operation of rebel movements in contemporary Africa and should be discussed in a separate lecture, - below I will concentrate on the exchange mechanism of oil against arms, which in the course of Angola's civil war gradually turned into the exclusive method by which the MPLA-government has financed its war campaigns.

Preliminarily, I wish to indicate that I consider the Angolan civil war an armed conflict, the character of which has become *transformed* over the years. Originally, when the civil war started over a quarter of a century back, the armies that competed for power in the country were both nationalist resistance movements, each possessing a differential social base amongst the Angolan population (1). Subsequently, the confrontation between the armed forces of the Luanda-based MPLA-government and the armed forces of the UNITA became a centre of contention between the two Cold War adversaries, the Soviet Union and the USA, which both sought to extend their spheres of influence on the African continent via military intervention of their respective allies, Cuba and South Africa, in the Angolan civil war (2). And although the use of disparate exchange by Angola's rulers predates the end of the Cold War, it is only during the decade of the 1990s that the civil war has been shaped overwhelmingly by the operation of this mechanism.

Below, I will focus on Angola's contemporary economy as a typical instance of an economy which has been deformed, *disarticulated*, due to disparate exchange. Although the country's ruling government for long was guided by a Marxist ideology, its one-sided dependence on the extraction and sale of oil is well comparable with the reliance on the exports of one or only few primary commodities, which was so characteristic for the policies of former colonial powers in Africa, and for the policies of neocolonial regimes on the African continent. Moreover, because the methods for the transfer of oil income towards arms' imports have been laid bare relatively well by critical researchers, there is hardly any doubt today that disparate exchange has become the mode of operation of the Angolan government. Thus, the case of Angola well illustrates that the employment of disparate exchange tends to lead to *continuation* of the

phenomenon of disarticulation which characterizes both African economies under colonialism, and the situation under most contemporary neocolonial governments.

Still, the case of Angola's participation in disparate exchange is distinct from the participation of most other African countries in globalisation, for here is one stance where the two trading mechanisms have been applied in historical *succession*. Previous to the emergence of oil as Angola's principal export item, the country's export portfolio had consisted of non-fuel primary products, most prominent among which was coffee. Whereas coffee and other non-fuel primary commodities were and are affected by unequal exchange, oil, as well known, in view of the historic price increases which OPEC has imposed since the 1970s, has largely been 'emancipated' from the mechanism of unequal exchange. Hence, Angola's evolution from a position as exporter of non-fuel primary products to a position as exporter of the fuel commodity oil, appears to have largely coincided with the country's changed status, from Southern participant in unequal exchange to Southern participant in disparate exchange. In short, it illustrates not the coincidence, but the historical *succession* of trading methods.

## **2. Oil and the Disarticulation of the Contemporary Angolan Economy**

To start, let's note a few data regarding Angola's historically growing and extraordinary dependence on the exports of oil in its post-colonial period, and note how it characterizes Angola's contemporary economy. The extraction of oil is said to have started in small quantities in the second half of the 1950s. Whereas oil constituted only 0.1 percent of the total value of Angola's exports in 1968, by 1973 oil overtook coffee as the colony's first export item (3). This, coincidentally, is precisely in the year in which OPEC imposed a fourfold increase in the price of international oil. Ever since then, the country's dependence on oil as source of revenue has continued to grow. According to Hodges, who offers a lucid overview of Angola's oil economy, throughout the 1990s the petroleum sector has accounted for 'well over 90 percent' of export earnings (4). However, the net contribution of oil towards the country's net foreign exchange earnings cannot be equated with the figure for annual exports (4.1 Billion US Dollars in 1996-1998), since Angola's oil industry is largely dependent on imported goods, and since the oil profits gathered by international oil companies are repatriated (5).

Further, not only do quantitative data cited in the various reports on Angola's oil production indicate that the country is extremely dependent on oil as single most important export item, the oil sector also has been commonly characterized as an *enclave economy*, with very few links to the rest of Angola's economy. On the one hand, with the exception of about 40 thousand barrels per day, most oil production is exported (6). Production approached 800 thousand barrels per day by 2000 (almost 6 times the 1980 volume), and is still expanding. Only a small portion of the crude oil extracted from the onshore and off-shore production sites is processed in the country's oil refinery in Luanda, while the rest is exported as crude. Although, as Hodges notes, some steps were taken in the 1980s to build supportive industries for the construction of production platforms and other oil equipment, these investments were subsequently destroyed by

UNITA's rebels (7). Hence, links between the oil sector and other industrial sectors of Angola's economy continue to be weak.

Again, whereas in Sudan the oil extraction sites have been the target of attacks by (Southern) forces disputing the government's exclusive government control over the country's oil resources, Angola's oil extraction sites have for long remained free from any armed attacks. While in the mid-1970s the country's geographical oil enclave, Cabinda, was the centre of activity of a separatist resistance movement, this province has remained unaffected by the incessant war between government forces and UNITA. Since most concessions granted to foreign oil companies are located offshore, they have remained beyond the reach of UNITA-rebels. In fact, as Hodges remarks, Angola's petroleum sector is a case both of an *economic* and a *social* enclave. Whereas in other Southern oil-exporting countries, the oil multinationals have had to cope with the demands of local communities, Angola's main oil fields are located in or near provinces which represent only a fraction of the country's total population (8). Thus, it is indeed no exaggeration to speak of the oil sector as an extreme case of an enclave economy.

In the past, when theorizing on unequal exchange and on the nature of peripheral economies in the world system, Samir Amin and others have spoken of the *disarticulation* of peripheral economies which contrasts with the integrated nature of central economies. Here the issue posed was that of the links between export sectors and other industrial sectors. Whereas in the case of central economies there are numerous economic bonds between the entrepreneurs of export industries and other domestic industries and sectors, - such is not the case for peripheral economies (9). Since Angola's petroleum sector is so typically a case of an enclave economy in accordance with Samir Amin's views, and since this sector, as I will discuss below, is the foundation for Angola's participation in the international trading mechanism of disparate exchange, it is obvious that the phenomenon of disarticulation does not only apply to countries which are tied to *unequal* exchange, but can and does also apply to countries which, for instance via the export of crude oil, participate in the *disparate* exchange.

### **3. Oil Versus Angola's Traditional Exports of Coffee One Export-Oriented Strategy Replacing Another**

The overwhelming dependence of Angola's government on the exports of oil in the post-colonial era should further be put in historical perspective, and compared and contrasted with the country's previous dependence on coffee exports. As Graham Walker recalls, shortly before Portugal relinquished its control over Angola coffee production in the then colony had reached a record level. Whereas production amounted to 114 thousand tons in 1940, annual production had almost doubled by 1974, reaching 210 thousand tons (10). Cultivation was concentrated largely in provinces of the country's Northwest, and was nearly equally divided between cultivation at coffee plantations and cultivation by independent peasants. Just before independence, almost 600 thousand hectares were planted with coffee, making Angola the fourth largest producer in the world. In the early 1970s, Angola was known as the second largest coffee producer in

Africa, and as the world's main supplier of the *Robusta* variety of coffee. According to Walker, in 1972/1973, coffee made up 36 percent of the colony's total exports (11).

Now, whereas oil by 1973 had already emerged as major export commodity, replacing coffee as number one item on the list of items traded by the colony, the *displacement* of coffee and other traditional export items by oil has been almost total. For not only have oil extraction and oil exports progressed steadily since Angola's independence from colonial rule, - production of coffee and other traditional items has fallen very dramatically. Thus, coffee production alone fell by no less than *93 percent*, from 210 thousand tons in 1974 to about 15 ½ thousand tons in 1986 (12). Although coffee still earned Angola a reported 10.8 million US Dollars, this was only a fraction of income it had generated in the early 1970s. By the mid-1990s, the collapse which had started in 1975 was almost complete. According to Hodges' data, coffee exports in the period 1993-1997 on average were just *1 percent* of their level in the early 1970s (13)! Thus, a steady growth of oil exports has contrasted with the eclipse in production and export of the commodity that figured as the country's leading export item in the late colonial period.

There is not much scope here to fully elaborate the various reasons responsible for this demise. Tony Hodges refers, to start, to the departure of the Portuguese settlers who had ran Angola's coffee plantations, and to the exodus of the largely *Ovumbundo* workforce from the coffee growing provinces in the Northwest. The latter exodus appears to have negatively affected the output of both the coffee plantations and the peasantry (14). According to Hodges, the decline was 'accentuated' by the ineffective methods of operation of the estate coffee companies which took over after the plantations had been nationalized. A crucial factor explaining the demise of coffee production most surely is the destructive impact of the war. As civil war spread into Angola's coffee growing areas during the 1980s, Hodges argues, both the cultivation and the marketing of coffee were severely disrupted. Here, we are confronted with the negative impact of the consumption of military commodities, bought or otherwise obtained by the two warring parties, the MPLA and UNITA, from abroad.

Whatever one's assessment regarding the relative weight of the various factors responsible for the collapse of coffee production, - the balance-sheet has been a nearly total displacement in the exports of coffee (and other non-fuel primary products) by the exports of the fuel commodity oil. Since the present extraction of oil is as much geared towards exports to countries of the North and was the past cultivation of coffee, - the obvious implication is that one export-oriented strategy has been replaced by another one, each tying the Angolan economy to the world economy, and to uncertainties in the world's conjuncture. Again, to the extent that Angola's coffee exports in the decades preceding 1975 were affected by unequal exchange, and to the extent that participation in disparate exchange has succeeded the former, one will have to at the same time conclude that Angola's participation in one exploitative trading mechanism has been replaced by the country's participation in yet another imperialist trading mechanism.

#### 4. Methods to Finance Arms' Imports: Taxation of Oil Extraction

We now need to look more closely at the financial methods which have enabled the government of Angola to participate in disparate exchange. The MPLA-government has been very successful in channeling income earned via oil extraction and oil exports towards arms' imports, both by using standard methods of taxation, generally accompanying the operations of international oil corporations in Southern economies, and by using more unconventional methods. It is not easy to form oneself a precise idea regarding the whole array of mechanism which the Angolan government has used to gather oil rent. Yet partly thanks to the research efforts of watchdog institutions such as the London-based research centre *Global Witness*, the most lucrative transfer methods appear to have been unearthed by now (15). The MPLA-government's oil rent is stated to have averaged *2.1 Billion* annually in the second half of the 1990s (16), and there is no doubt that a major part of the oil rent has been used for the purchasing of foreign arms, and for army expenditures more generally. One indicator is that between 1996 and 1998, 18 percent of the country's GDP was devoted to defense (17).

Historically, the first method of taxation introduced in Angola, was that employed under the system of joint venture agreements. Soon after Angola's independence, the Angolan government set up a national company called *Sonangal* (Sociedade Nacional de Combustiveis) and promulgated a petroleum law, under which *Sonangal* was made the sole concessionaire for oil exploration and development (18). *Sonangal* then signed contracts with oil companies which had already been active in Angola from before independence. The joint venture regime of income transfers includes both the payment of royalties, being a percentage share in the sale of crude oil, and the payment of taxes on profits (19). According to a World Bank analysis dating from 1990/1991, the form of the joint venture is rather beneficial to the Angolan government, since it provides the government instead of Angola's state company *Sonangal* with the major share out of the portion of crude oil which the international oil company is obliged to surrender to its Angolan hosts. In any case it is obvious that the royalties and taxes on profits, which in the form of foreign exchange accrue to the Angolan treasury, do offer the Angolan government the opportunity to purchase foreign arms and thus participate in the trading mechanism of disparate exchange.

A second form of contract that was introduced in connection with oil extraction in Angola is that of the *product sharing agreement* (PSA). Like the previously mentioned form of contract, the PSA too is a form of contract that is frequently employed in the international oil sector (20). Here, *Sonangal* subcontracts oil exploration and oil extraction rights to foreign companies, in exchange for a share in the output. Output is divided into two shares, known as '*cost oil*' and '*profit oil*'. '*Cost oil*', which should enable the company to cover all its operating costs as well as past expenditures, may not exceed 50 percent of total production. On the other hand, '*profit oil*' is split between the Angolan state company and its foreign partner, along a sliding scale which is related to the size of oil output (21), with the Angolan share rising as output expands. A disadvantage of the product sharing agreement, according to Hodges, is that fiscal revenues under this system decrease when the price of oil falls on the international

market, such as has happened repeatedly in the past (i.e. in 1985 and in 1998). Since product sharing agreements concluded recently in connection with the deep water blocks have been tied to the nominal rate of return, the effect of a price fall on government oil income is stated to be especially large (22).

There is yet a third form of payment by international oil companies which has contributed significantly to generating resources used for the purchasing of foreign arms. This is the form of 'signature bonuses', which international oil companies agreed to pay to the Angolan government in the late 1990s in connection with bidding for 'ultra deep water' blocks, i.e. blocks involving oil operations in excess of 2000 meters, requiring the use of highly modern technology. Contracts for three blocks with international consortia are said to have resulted in the government income of \$ 900 million, as upfront one-off payment for exploration rights (23). According to *Global Witness*, the British research group referred to above, much of the dollar income bagged as 'signature bonuses' by the Angolan government, has been employed towards the procurement of foreign arms (24). Thus, the method of signature bonuses is yet a third method, along with taxation income gathered under joint ventures and product sharing agreements, which facilitates the exchange of Angolan wealth for foreign commodities representing social waste. Once again, the key factor which makes the transfer of money and parallel transfers possible is the fact that the payments are made in currencies accepted as international currency.

### **5. Angola's Debt Economy and the Mechanism of Disparate Exchange**

Before listing further methods that connect Angola's oil exports with the imports of arms, we should pause to look at overall figures on the country's military spending. I have already mentioned that Angola, from 1996 to 1998, is estimated to have spent 18 percent of its GDP on defense, which is an extremely high proportion. In comparison, according to Hodges developing countries as a group devoted *eight times* less than Angola to defense in the year 1996 (25). Further, it is generally understood that a part of Angola's expenditures on the military have been unrecorded in the years from 1993 through 1998. In 1997, for instance, the *recorded* share of defense and public order in the government's budget was 18.7 percent, in addition to which there are estimated to have been 18.2 percent of *unrecorded* expenditures (26). I do not avail of precise data on the exact portion of the military budget that was spent on the purchasing of foreign arms. However, Angola in the late 1990s is known to have procured arms from a range of seller countries, including the Russian Federation and other Eastern European countries. At least one of the arms' procurement deals, i.e. that signed with Slovakia in 2000, was a barter deal, involving the direct exchange of oil against arms (27).

Now, there are at least two more major methods that need to be described in order to get a more or less comprehensive picture of Angola's application of disparate exchange, in particular in the 1990s. One method highlighted by *Global Witness* is the mechanism whereby small companies with links to arms' trading have been granted equity stakes in the concessions for the first deep water blocks, in 1999. One company that was granted a 20 percent stake in Block 32 (*Prodev*), and two companies with a 10

and 5 percent stake in Block 33 (*Falcon Oil* and *Naphta*), are known to have links to international arms' trade (28). These equities stuck out as remarkable, because there apparently was intense competition among large oil companies for the stake holdings in the given blocks. And although, if proven, secret deals under which arms are supplied in exchange for equity shares in oil concessions are to be differentiated from barter deals, where oil and weaponry are exchanged *in kind*, the equities-versus-arms-deals would nevertheless form an example of direct disparate exchange. The discussion on the issue shows that, as the use of disparate exchange becomes more widespread, new vehicles are invented to facilitate the exchange of wealth against waste.

I have yet to refer to the issue of *oil-backed loans*, a form of import financing which the government of Angola has introduced in view of its rising debt burden. This method is so characteristic for the way Angola has been operating under disparate exchange in recent years, that indeed it needs to be described separately. Between the mid-1980s and the mid-1990s, the country's debt burden rose rapidly, reaching a reported \$ 11 Billion by 1995 (29). The debt was partly caused by the fact, that Angola had contracted large loans from Russia for the purpose of military procurement. Problems were compounded by a steep fall in oil prices in 1985-1986. Angola's government, as Hodges records, then started accumulating arrears as the principal way to solve its financial difficulties. However, by the late 1990s, the country got into trouble with its foreign creditors, who refused to further reschedule its debts. Meanwhile, to circumvent the problem, the government had decided to build up new arrears by using the share of oil production to be received by the state company *Sonangal* from the foreign concessionaries as tax payment in the future, as guarantee against loans for the financing of Angola's imports (30).

This method of financing imports has been termed '*oil mortgaging*', since it implies that Angola's future oil revenues are offered as payment for purchases the government wishes to make in the short run. The oil-backed loans are notably covered by 'profit oil', which *Sonangal* is entitled to under the product sharing agreements (PSAs). And since the foreign exchange available through the oil-backed loans is reported to have mainly been used for the buying of military equipment on the international market, the given loan-form is yet a further method to be listed under the heading of disparate exchange. Clearly, then, Angola has not just *joined* the group of Southern oil-exporting countries, headed by Middle Eastern states, which have opted to invest a major part of their oil income in the buying of arms from abroad. For in the course of applying an export-oriented strategy towards its oil wealth, so as to finance its prolonged civil war against the rebel movement UNITA, the Angolan government has added new methods to the previously known taxation methods of income-generation. It has earned the dubious distinction of having further *elaborated* the use of disparate exchange.

## 6. Conclusion

Although in this lecture I have only discussed the application of disparate exchange by one of the parties that have been at war in Angola from 1975 til recently, i.e. the MPLA-government, - the above review sufficiently brings out the importance of the

Angolan case. At the end of 25 years of civil war, the Angolan people belong to the very most deprived section of the world's population. Based on 1998 data, the country was ranked 160<sup>th</sup> out of 174 countries in the 2000 edition of the UNDP development index (31). Even as compared to other Subsaharan African countries, Angola scored badly. Life expectancy, for instance, variously estimated at between 42 and 47 years, was lower than the average for all Subsaharan countries combined (32). More than a quarter of all newly born babies die before they reach 5 years of age. Whether one looks at figures recording severe malnutrition amongst children, at the percentage of people with access to safe water, at adult literacy rates or percentages regarding school enrolment of children, - in respect of each of these indexes the situation faced by Angola's population is more dramatic than that faced by the people of the Subsaharan region as a whole. While the regime of 'free trade' has detrimental effects for all Least Developed Countries, the effects have been simply devastating for (most) people in Angola.

Further, since the method of disparate exchange has been employed by both sides in Angola's armed conflict, - a full assessment of the method's consequences should take account not only of the government's reliance on the exchange of oil against arms, but should equally take cognizance of the consequences which UNITA's sale of rough diamonds against arms has had. Nevertheless, one may safely conclude that the strategy chosen by Angola's MPLA-government, of building a *disarticulated* economy on the basis of the country's oil wealth, and of exchanging crude oil against arms purchased on the world market, has in no way contributed towards increasing people's standards of living so far. Surely, a part of the explanation lies in the fact that the government carried on, or had to carry on, a vicious war against UNITA, i.e. in the *consumption* of the weaponry bought from abroad. However, little of the income earned from oil exports has been employed towards social expenditures (33). Hence, one cannot but conclude that Angola's mode of application of disparate exchange has been an extraordinarily negative experience, as it has resulted in the net loss of a significant part of the country's mineral wealth.

In the case of Angola, as indicated in the section on the history of coffee exports, the country's traditional exports have been *replaced* by the export of one single fuel commodity. This means that the country's participation in the ongoing process of globalisation has been determined by the operation of one trading mechanism, i.e. disparate exchange, to the exclusion of unequal exchange. Surely, historically, for many decades, crude oil too was a commodity which like other primary products was traded under unequal exchange. Again, Angola at certain moments over the last two decades has seen its oil income being affected negatively by sudden prices falls. Potentially oil prices could fall back below the historical threshold fixed by the OPEC *cartel* in the first part of the 1970s. Nevertheless, as things stand today, Angola is not a case of a country the economy of which is negatively influenced by the simultaneous operation of two trading mechanism. It is typically a case where disparate exchange has largely superceded unequal exchange, and where disparate exchange has been the government's preferred mode of participating in globalization for well over two decades. Within the context of the theory of disparate exchange, it therefore is a case of *succession* (34);

Lastly, within Africa, Angola stands out as one of, if not *the* most prominent case of the application of disparate exchange. Surely, there are other African countries possessing rich oil resources, which have taken to the exchange of oil against arms: for instance Nigeria and Sudan. However, the Angolan government, as stated, has earned the dubious distinction of having not just copied method of taxation devised by other oil-exporting nations, so as to channel foreign currency income towards its treasury. In the first period and up to the late 1980s, these methods sufficed to ensure that enough foreign money were available to purchase arms from abroad. More recently, however, the government has taken recourse to unconventional devices – such as equity shares in offshore oil concessions, and oil mortgaging – in order to quench its thirst for arms. In short, in view of the broad array of methods that have been employed by the MPLA-government to finance its arms' imports, the Angolan case already stands out as crucial in the history of disparate exchange.

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