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INSTITUTIONS, DEVELOPMENTAL ALLIANCES, AND

ECONOMIC DEVELOPMENT IN KOREA AND BRAZIL (1950-1985)

by

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B.S. August 1991, East Tennessee State University

A Thesis Submitted to the Faculty of
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May 1998

Approved by:

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ABSTRACT

INSTITUTIONS, DEVELOPMENTAL ALLIANCES, AND
ECONOMIC DEVELOPMENT IN KOREA AND BRAZIL (1950-1985).

Charles Paul Winebarger
Old Dominion University, 1998
Director: Dr. Kidane Mengisteab

This paper analyzes the comparative development of Korea and Brazil, 1950-85. These newly industrialized countries developed at above-average rates in comparison to other less developed countries. Korea developed more rapidly than Brazil. The paper contends that *institutions*, interest groups (especially firms) and the state, enter into *developmental alliances*. Alliances affect *policies*. Policies, then, affect *development*.

To gather characteristics on factors, a literature review is used. Since development is considered to be synonymous with industrialization, it is measured according to output growth, change in shares of GNP, and change in structure of industry.

Findings of the factorial characteristics reveal interesting trends in the1950s' democracies of the cases. Both countries had semi-autonomous states, equivocally committed to industrialization. Industry was the growth point in each. Korea used local firms to industrialize; Brazil used foreign firms. In both cases, the state allied itself with firms. Policy in Korea and Brazil mostly favored industrialization. Both countries experienced comparable rates of industrialization.

Findings of the 1960s-1980s' bureaucratic-authoritarianisms (B-A) of the cases also reveal interesting trends. While the state became more autonomous with B-A in both cases, the Korean state became more autonomous than the Brazilian. Korea developed an unequivocal commitment to industrialization; Brazil retained its lukewarm industrial commitment. Brazil formed an alliance with public firms to modernize in the 1970s; Korea turned to large local capital to effect this goal. Korea's policy was myopically pro-industrial; Brazil's policy was not as narrowly pro-industrial. Korea displayed phenomenally higher rates of development during B-A than it exhibited in democracy. By contrast, Brazil continued at a pace comparable to the democratic period.

The paper finds the following conclusions. Autonomous states with high

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commitment to economic development maximize development. Firm types that optimize economic development are local, not foreign or public. Primary developmental alliances of state with firms augment development. Pervasive, pro-industrial policies expand development. To the extent that both case studies possessed these characteristics, they both developed rapidly. Since Korea possessed these qualities to a greater extent than Brazil, Korea developed more rapidly than Brazil.

Co-Directors of Advisory Committee: Dr. Justin Friberg
Dr. Kae Chung

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ACKNOWLEDGMENTS

I extend many thanks to my committee and director. I offer my heartfelt gratitude to the network of friends and family who made my life richer and gave generously of their love, support, and prayers. I relay the same to my sister, Kristel, and parents, Mary and Charles, for whom this acknowledgement seems wholly inadequate.

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CHAPTER I

INTRODUCTION

The struggle of the poorer, agrarian nations to advance themselves to the ranks of richer, industrial nations is one of the most crucial of late twentieth century.[1] The changes that such developing countries experience are not only economic but institutional. The case of development with which this paper deals is the "third" of three industrial revolutions. England pioneered the "first" industrial revolution in the eighteenth century. England's industrial hegemony began to be encroached upon by its European and American emulators between 1850 and 1873 in what is known as the "second" industrial revolution. The third industrial revolution dates back to the end of World War II and has been labeled "late" development. Each industrial revolution has been more rapid than the last, has relied on heavier doses of state intervention, more complex firm types, and has used technology in a slightly different way to create industrial comparative advantage.[2]

The East Asian and Latin American "newly industrialized countries" (NICs) are exemplars of the third industrial revolution.[3] There are a number of characteristics of this industrial revolution. One of them is that "late" industrializers create an industrial comparative advantage by learning technology as opposed to inventing it or innovating upon it. Another is that late industrializers tend to develop unprecedentedly fast. A third is that this industrialization has occurred in the post-World War II era. Finally, late industrializers tend to possess more interventionist states and larger firms than past industrializers.

The journal model employed was Kate L. Turabian, A Manuel for Writers of Term Papers, Theses, and Dissertations, 6th. ed. (Chicago: University of Chicago Press, 1996).

[1]Gustav Ranis, "Toward a Model of Development," in Liberalization in the Process of Economic Development, eds. Lawrence B. Krause and Kim Kihwan (Berkeley: University of California Press, 1991), 59.

[2] Alice H. Amsden, Asia's Next Giant: South Korea and Late Industrialization (Oxford: Oxford University Press, 1989), 3-7, 12-13, 20-23. The different ways the countries in each industrial revolution used technology to create comparative advantage in industry were as follows: Britain *invented* in the first industrial revolution , countries *innovated* in the second such revolution , and countries *learned* in the third revolution.

[3]The East Asian NICs are regarded normally to be Taiwan and Korea. Hong Kong and Singapore are typically disqualified from this category because of their city-state and entropot status as well as other unique characteristics. The Latin American NICs are considered to be Brazil, Mexico, and sometimes Argentina.

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Within their regions, Korean and Brazilian industrializations are good examples of this industrial revolution. They have the best records of economic development in their respective regions as pertains to structural transformations. In Korea, the share of industry in GNP changed from 8.8% in 1953 to 43.2% in 1987; in Brazil, it changed from 23.5% in 1950 to 34.4% in 1985. Likewise, changes occurred rapidly within manufacturing. In 1953, Korean heavy industry accounted for 20% of total manufacturing, but by 1986, this share rose to 57.8%. Similarly, in 1949 Brazilian heavy industries made up 27.0% of total manufacturing, but by 1988, this grew to 60.4%. Two questions spring from these remarkable transformations. First, what explains the very rapid structural transformation in both countries? Second, how was Korea able to grow faster and change its economic structure more rapidly than Brazil?

RESEARCH OBJECTIVE

The research effort analyzes two NICs, one from the Latin American region (Brazil) and one from the East Asian region (Korea). The research objective is to uncover the similarities and differences in the Brazilian and Korean development process. This will be done by disaggregating the factors influencing development. The major factors upon which this thesis will focus are institutions and economic policy. The study will analyze the regularities and differences among these factors as they have occurred in the cases.

Despite some differences in institutions, economic policy, and economic development in the post-war period and even more striking differences in the 1980s, the East Asian NICs and the Latin American NICs cannot be assumed to be as different as previously thought. Alice Amsden, who has written one of the most insightful, if controversial, books on Korean industrialization to date, describes these similarities.

> The paradigm of late industrialization through learning generalizes to a diverse assortment of countries with different growth records. . . . Growth rates differ among late developing countries, but in all cases industrialization has come about as a process of learning rather than of generation of inventions or innovations. Learning, moreover, has been based on a similar set of institutions. . . . The conventional explanation for countries like Korea, Japan, and Taiwan have grown relatively fast is that they have conformed to free market principles. . . . In fact, the fundamentals of their industrial policies are the same as other late industrializers.

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> *In Korea, instead of the market mechanism allocating resources and guiding private entrepreneurship, the government has made most of the pivotal investment decisions. Instead of firms operating in a competitive market structure, they each operated with an extreme degree of market control, protected from foreign competition.* [emphasis mine] Nonetheless, most economists who recognize these realities greet them with an unfailing faith in market laws. They suppose that while state interference in Korea is pervasive, the economy operates with a set of relative prices that are not greatly distorted. In fact, little evidence supports this presumption. . . . [N]ot only has Korea not gotten relative prices right, it has deliberately gotten them "wrong." Nor is Korea an isolated case. It is part of countries that I have termed *late industrializers*. . . . In Asia, this group includes Japan, Korea, and Taiwan. Beyond Asia, other late industrializers are Brazil, Turkey, India, Mexico, and possibly Argentina[4]

COMPARATIVE APPROACH

In social science, the researcher attempts to discover meaningful generalizations in relation to the information at hand and the research problem. Among many methods for conducting social science research is the comparative approach, which focuses on two or more case study units. Korea and Brazil were selected as the two study units about which to derive regularities. Comparative studies of two countries, like this one, are not suitable for making generalizations about the nature of development in every late developing country in the world. Still, generalizations based on the case studies may be relevant to developing countries elsewhere and may reveal crucial aspects about the development process that another more aggregated study would overlook.

COMPOSITE HYPOTHESIS

The comparative approach, like many social science approaches, may begin with a hypothesis. The research analyzes a composite hypotheses. First, institutions, state and interest groups (particularly firms), form developmental alliances. Second, developmental alliances affect economic policy. In turn, economic policy is a prime determinant of economic development. The interrelation of variables is summarized in figure 1. Before going deeper into the substance of this figure, a word should be said about its layout. The

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[4]Amsden. Giant, 4, 139-140. For more information on how the Korean government intervened to "get the prices wrong," see Chapter 3 of this work.

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reader may notice that the boxes for "shared characteristics" are larger than the boxes for "unique characteristics." This implies that the "shared characteristics" of Korean and Brazilian economic development are more numerous and stronger than any "unique characteristics" either one of the cases possess independently. This sentiment is emphasized by the use of bold type for "shared characteristics" and normal type face for "unique characteristics." In addition, lines with arrows are used to illustrate the relationships between variables. Again, the heavy arrow-line originates from the "shared characteristics" box and points toward another "shared characteristics" box indicating that the driving force behind the industrialization process are the "shared characteristics" that both case studies possess. The dotted lines for "unique characteristics" in Korea and Brazil only suggest that the relationships between "unique characteristics" were not the primary source explaining development in these countries, but they do serve to illustrate that subtle differences in the independent variables may explain the subtle differences in the dependent variables. The different weights of the dotted arrow lines help the eye discriminate the (dotted) arrow line running from the "unique characteristics" of Brazil from the different weighted (dotted) arrow line running from the "unique characteristics" of Korea.

These arrow lines suggest one-way relationships between the variables. For instance, the "shared characteristics" of "institutions" ("state" and "firms") come together to have similar consequences ("shared characteristics") for the developmental alliance in Korea and Brazil. However, Korea has "unique characteristics" in its "institutions" that lead to "unique characteristics" for the "developmental alliance" in Korea: this is why the distinctive (dotted) arrow line points from the "unique characteristics" boxes for Korean "institutions" to the "unique characteristics" box for the Korean "developmental alliance." Likewise, Brazil has "unique characteristics" about its "institutions" that Korea does not have that lead to "unique characteristics" of the "developmental alliance" in Brazil: this is why the distinctive (dotted) arrow line points from the "unique characteristics" boxes for Brazilian "institutions" to the "unique characteristics" box for "developmental alliance" in Brazil. In short, the institutional "shared characteristics" led (indicated by arrow line) to "shared characteristics" in the "developmental alliance." The "shared characteristics" of the "developmental alliance" led to "shared characteristics" in the "economic policy." The

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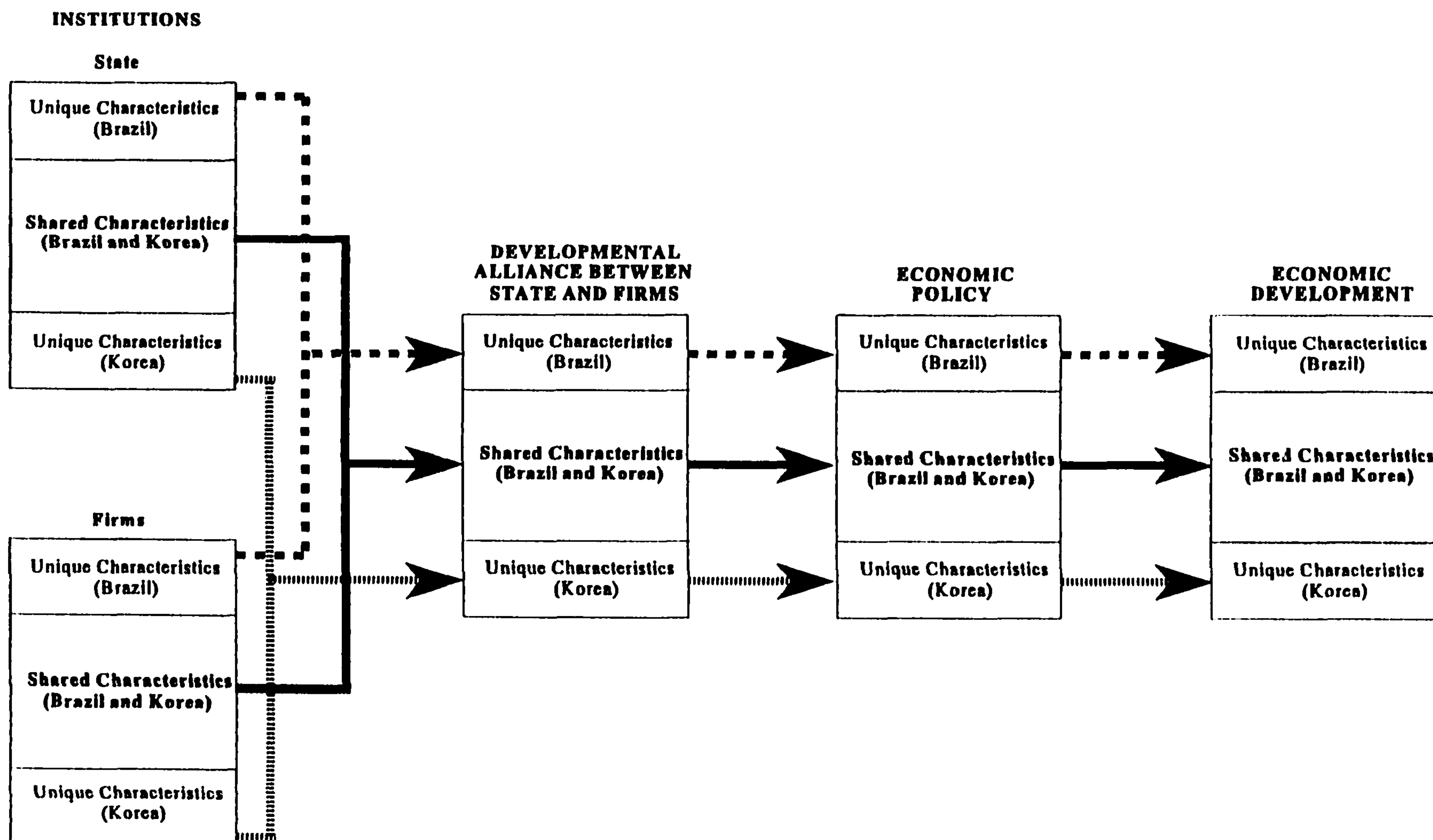
Figure 1. Composite hypothesis about the process of development: Korea and Brazil



"shared characteristics" of "economic policy" led to "shared characteristics" in "economic development." The same relationships hold true for "unique characteristics" of these independent and dependent variables in Korea, on the one hand, and Brazil, on the other.

Common to all studies of comparative political economy is the assumption that institutions, developmental alliances, and economic policies affect economic development. This figure designates *institutions* as the first variables. The most important institutions involved in development are the state and firms.[5] In these countries, the differences and similarities in these institutions led to differences and similarities in the *developmental alliance*. In turn, the differences and similarities in the countries' developmental alliance led to differences and similarities in countries' *economic policy*. Further, the differences and similarities in economic policy resulted in differences and similarities in economic development in the case studies. One underlying assumption concerning these hypotheses is that similar characteristics among the variables (institutions, the developmental alliance, and the economic policies) caused similar characteristics in the dependent variable, economic development. Another underlying assumption is that the similarities among the independent and dependent variables are greater than the differences. *World crises* and *world opportunities* are intervening variables of this study of international political economy. Intervening variables receive some attention in the body of this work but are not a main focus of this paper.

The major variables, described above, are disaggregated according to their characteristics or sub-variables. As shown above, institutions can be broken down into smaller categories (the state, firm, and other interest groups). The first institutional variable to be considered is the *state*. A state may be very interventionist, moderately interventionist, or noninterventionist. A state can be very technocratic, moderately technocratic, or not technocratic at all. These qualities are analyzed according to a literature review.

Likewise, the institutional variable of the *firm* is broken down into sub-variables.

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[5]In certain instances, other interest groups beside firms can play a critical role in the developmental alliance and, consequently, have an important impact on economic policy and, in turn, economic development. However, since such interest groups are normally limited in their power within the developmental alliance, they are not described in figure 1. However, they will be described later in the text.

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A firm may be foreign, domestic, or public. A firm may be large and diversified, moderately large and rather diversified, or small and undiversified. A few firms can dominate the market with no competition, oligopolies can occur in some sectors with a moderate amounts of competition elsewhere, or firms can share roughly equal shares of the market and more competitive conditions can arise. Firm concentrations (ie., shares of big business output in relation to total output) and compositions (ie., the shares of foreign, domestic, and public output to total output) are available in statistical form and such sources will be referenced, but they are analyzed here according to a literature review.

The final institutional variable, *other interest groups*, is not considered important enough to be mentioned in the institutional category. However, such interest groups beside firms are discussed briefly within the body of this paper. Interest groups can be divided into myriad sub-variables. However, the focus on interest groups only includes those which directly affect economic development. They include other productive sectors such as agriculture and services. They include labor. They even include the external interest groups such as the International Monetary Fund (IMF) and the United States.[6] The IMF and the US had great influence on economic policy that corresponded to their roles in financing development in Korea and Brazil. The IMF also played a key role influencing policy in Brazil that coincided with its role as spokesman for renegotiating debt from foreign banks. Even though these interest groups played large roles in certain instances, they were usually not more than secondary members of the developmental alliance. Such interest groups are analyzed briefly in a literature review.[7]

The *developmental alliance* is another variable. The developmental alliance is the relationship of the state to society at large as well as certain social sectors. A state may be allied to industry alone, to industry as well as other interest groups, or to another interest group or other interest groups besides industry. These aspects are analyzed according to a literature review.

Economic policy is another variable and is also be analyzed according to its

[6]The United States will be referred to in the future as the US.

[7]A bit more time will be spent on the influence of external interest groups, since these were moderately influential on Brazil and Korea's developmental alliances.

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characteristics. Economic policy may be devoted entirely to the promotion of industrial expansion, to industrial expansion as well as the expansion of other sectors, or may not devote itself to industrial expansion at all. It may be inward-oriented or outward-oriented.[8] The extreme form of inward orientation is autarky; a less extreme form is import substitution. The extreme form of outward is export push; a less extreme form is a laissez faire economy.[9] Both import substitution and export push can be extreme, moderate, or light. Export push and import substitution can operate in varying combinations. Economic policy can also operate through microeconomic means, macroeconomic means, or some combination of the two.[10] This variable is analyzed according to a literature review.

Economic development is the dependent variable. Economic development can be led by agricultural, industrial, or service growth. This thesis does not look at the "traditional" stage of economic development which is led by agrarian growth. Nor does it look at the "post-modern" stage of economic development defined by the service sector leading economic development. It looks at the "modern" stage of economic development distinguished by high rates of industrial growth. The statistics on industrial, agricultural, and GNP growth are provided for this purpose. By considering the modern stage of economic development, this thesis identifies industry as the sector which should experience the greatest growth of shares within GNP. Statistics on sectoral change of industry, agriculture, and services within GNP are given with this intention. Finally, modern economic development is described by a high growth of the shares of heavy industry *vis a vis* light industry within total manufacturing. This will be rendered

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[8]Colin I. Bradford, Jr., "Policy Interventions and Markets: Development Strategy, Typologies, and Policy Options," in Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia, eds. Gary Gereffi and Donald L. Wyman (Princeton: Princeton University Press, 1990), 33.

[9]While it may be more correct to refer to trade-linked developmental policies as export push instead of export oriented industrialization (EOI), the latter and more conventional terminology is used here.

[10]Microeconomic intervention refers to the means by which the state can command relatively small productive units, firms and sectors, to act as prescribed. Macroeconomic intervention refers to state regulation of macroeconomic prices such as exchange rates, interest rates, wage rates, consumer prices, and the like. Such intervention affects the economy in a broad way with uncertain influence on the small productive unit. Microeconomic and macroeconomic policy tools are both effective means that a developing state can use to promote development, but microeconomic tools are the more effective, albeit the more dangerous, of the two.

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statistically as well. In addition to the statistics, relevant insights are given by the author and through the literature. In sum, this thesis defines successful economic development as it occurs in late industrializing NICs demonstrating successful economic development as encompassing rapid industrial and GNP growth, rapid growth of the percentage of the industrial sector within GNP, and a rapid growth of structural weight of heavy industry sector within total manufacturing.

CASE STUDIES

Korea and Brazil were chosen by the author because of their interesting similarities and differences in interest groups, developmental alliances, economic policies, and economic outcomes as they occurred in the 1950s-1980s' period. On the side of similarities, both countries developed rapidly in the context of late development as inferred by their inclusion under the groups of countries, the NICs. Despite Brazil's and Korea's impressive records, both experienced economic crisis in the early 1980s. Both used macro- and micro-interventions to promote their objectives and both used macro-interventions much more widely during the 1950s. Macroeconomic distortions subsided significantly during the early bureaucratic-authoritarian (B-A) regimes in both Korea and Brazil.[11] Such distortions reappeared in the early 1970s when each underwent a secondary ISI phase. Greater orthodoxy in micro- and macro-interventions is evident in both countries in the 1980s, and Brazil became more like Korea in that it pursued greater export promotion (ie., both countries liberalized and stabilized their economies). Both underwent painful "adjustments" where their industrial structures were transformed. Both have used the policies of import substitution to further their developmental aims. Moreover, the sequence of import substitution policies was similar: The 1950s and the 1970s were periods of ISI for both countries. Both formed primary alliances with the industrial sectors and used monopolized firms to build economies of scale in order to move up the

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[11]See the origin of this theory in Guillermo A. O'Donnell, Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics (Berkeley: Berkeley University Press, 1973). B-A theory initially was applied to Latin America, particularly Brazil and Argentina. It claimed that the authoritarian state shielded the economic bureaucracy from societal pressures so that economic policy would be more technocratic and attenuate the potential for capital accumulation. This theory has also been applied to Korea in numerous studies as will be shown later.

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rungs of modern industry more rapidly. Both have used strong, interventionist states to speed development. Moreover, these states experienced similar regime shifts: both were nominally democratic in the 1950s and both turned to bureaucratic-authoritarianism (B-A) from the 1960s until the 1980s.

Herein also lie subtle, but important, differences. Korea suffered less economic hardship than Brazil in the 1980s in the wake of the second oil crisis, and Korea's rate of industrial growth was superior to Brazil's in the democratic and bureaucratic-authoritarian (B-A) phases. During the 1950s, Brazil experienced a much more rapid industrial modernization than Korea. Brazil's more rapid modernization in this period is explained by the different developmental conditions of these countries' economies and the policies that interacted with these conditions as development evolved in in each country. Korea was blessed with a fairly modern industrial infrastructure that it inherited from the Japanese, even though much of it was destroyed during the Korean War. What remained of these facilities lay fallow during the 1950s while Korea embarked in a conscious effort at aid-financed import substitution industrialization in light manufactures. Brazil had just finished its 20-year period of "unconscious" primary ISI, or ISI in light manufactures.[12] In the 1950s, Brazil began a period of "conscious" secondary ISI, or ISI in more modern industries; and thus policy was directed at upgrading the structure of manufacturing.[13] In the 1960s, Korea engaged in primary "export oriented industrialization" (EOI), or EOI in light industries, while Brazil went through a period of orthodoxy. Brazil loosened its monetary policy which resulted in a period of capital accumulation in the late 1960s and early 1970s, while Korea continued its capital accumulation via primary EOI orientation. After a decade of such "deepening" (or secondary ISI) in each country in the 1970s, Korea, in the early 1980s, switched over to secondary EOI under its own volition with positive economic results. Meanwhile, Brazil strained to increase its exports under prolonged and acute foreign dependence and economic crisis. While Korea and Brazil may

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[12]This ISI period is called "unconscious" because government policy was not fully technocratic nor was it always aimed at maximizing expansion of domestic industry.

[13]This ISI period is called "conscious" because government policy had become more technocratic and it was *consciously* aimed at maximizing expansion of domestic industry.

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have both liberalized and stabilized their economies, Brazilian policy seemed to be devoid of a development plan outside these aims which caused the Brazilian economy to fall into a deep recession. On the other hand, Korea promoted a development plan that superseded liberalization and stabilization and allowed this economy to continue to develop rapidly.

The implications of these analogous and divergent characteristics of Brazil's and Korea's evolving economic models elicit some esoteric academic interest, but they might hold the keys to solving the riddle of underdevelopment in other less developed countries (LDCs). Policymakers in developing countries can learn from the economic models of Brazil and Korea. Such learning can positively affect policymaking and policy implementation and can also help maximize economic development in these countries. Care must be taken in applying these models to other LDCs. This is because different countries have different political, institutional, and economic factors or conditions which may not mesh easily with the models studied here. Moreover, models that were appropriate in the past may be less appropriate for today's international economic and political context. Judgment and creativity must be used in adapting, if at all, these models to other countries.

A number of assumptions follow from the study of Brazil and Korea. The fundamental and underlying assumption is that the shared characteristics in these variables as they occurred in the case studies allowed both these countries to develop rapidly, while the subtle differences in these variables as they occurred in these countries allowed Korea to develop more rapidly than Brazil. Other assumptions flow from this basic assumption. These will be broken down into those concerning two periods of development. These assumptions about development in Brazil and Korea in their 1950s democratic phase are:

(1) in both countries most of the characteristics of the states and the nature of its policies in these countries were not so different, outside of the obvious difference that Korea was undergoing primary "import substitution industrialization" (ISI) and Brazil was promoting secondary ISI at this time;
(2) while both states built primary alliance with industrial elite, the state alliance with the agricultural elite was stronger in Brazil than in Korea;
(3) the firm types began to diverge greatly in these countries at this time, ie., foreign capital came to dominate the dynamic sectors in Brazil while Korea relied on domestic firms to industrialize; and
(4) in neither the Korean nor the Brazilian case would such rapid industrialization have taken place had it not been for the large amounts of foreign finance provided by the United States (aid in the Korean case and loans in the Brazilian).

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The assumptions about the development process in Brazil's and Korea's bureaucratic-authoritarian (B-A) phases of the 1960s-1980s are somewhat more complex:

(1) Brazil and Korea both had autonomous states, but the state in Korea was more autonomous;
(2) Brazilian and Korean states both intervened heavily in the economy, but the Korean state was more interventionist;
(3) Brazilian and Korean states both produced pro-industrial policies, but the Korean economic policy was more myopically industrial;
(4) Brazil and Korea both used microeconomic as well as macroeconomic policy tools, but Korea tended to rely more on microeconomic policies than macro-economic policies while Brazil tended to do the opposite;
(5) Korea's microeconomic tools tended to be more effective in maximizing development than Brazil's;
(6) Brazil and Korea are cases where industrial firms dominate the center of the economy, but Korea has relied on domestic firms while Brazil has tended to rely on foreign and public firms;
(7) Brazilian and Korean firms are highly oligopolized, but Korean oligopolization is more extreme;
(8) Brazil and Korea were unable to industrialize on the basis of domestic savings alone and had to borrow heavily abroad, but Korea was better able to service this debt because of its larger revenues in exports and because it was able to acquire better terms on its debt.

The next chapter provides a setting for describing and interpreting the historical development of Brazil and Korea. It adopts the market failure theory and applies market failure theory to the variables (institutions, developmental alliances, and economic policy) as they occur in Brazil and Korea and relates this theory to the analysis of the dependent variable (economic development) which is described statistically.

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CHAPTER II
REVIEW OF THE LITERATURE

Research efforts concerning the comparative political economy of any or all of the East Asian and Latin American NICs are well advised to address the theoretical underpinnings and empirical evidence which has gone before. To understand the foundations of the research problem and its place within the context of such comparative development, it is essential to review similar studies. The purpose of this section is to compile those issues basic to the study of the comparative political economies of Brazil and Korea.

TWO THEORIES

There is an immense body of literature addressing the comparative political economies of development in the East Asian NICs and the Latin American NICs.[1] The literature on the subject has been increasing with explosive rapidity of late.[2] The reason for this interest revolves around the fact that the East Asian NICs have developed more rapidly than their Latin American cousins. This contrast is particularly striking in the 1980s when the Latin American NICs were racked by a prolonged crisis, while the East Asian NICs, after a brief stall in their growth engines, resumed their rapid economic development on a scale comparable to the "miracle" years of the 1960s through the 1970s.

Economists, mostly neoliberals, were the first to analyze this contrast.[3] The two

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[1]For a partial list see the third subsection of the bibliography in this volume.

[2]Rhys Jenkins, "The Political Economy of Industrialization: A Comparison of Latin American and East Asian Newly Industrializing Countries," Development and Change 22, no. 2 (1991): 197.

[3]The classical economists from which the neoliberalist's thought originates from the minds of Adam Smith, Thomas Malthus, John Stuart Mill, Walt W. Rostow, and David Ricardo. Some more recent examples of neoliberalist thinking in the context of East Asian and Latin American development are Jagdish Bhagwati, Foreign Trade Regimes and Economic Development: Anatomy and Consequences of Exchange Control Regimes (New York: National Bureau of Economic Research, 1978); Bela Balassa, Newly Industrializing Countries in the World Economy (Oxford: Pergamon, 1981); Bela Balassa, Policy Reform in Developing Countries (New York: Pergamon, 1977); Anne O. Krueger, Development of the Foreign Sector and Aid (Cambridge, MA: Harvard University Press, 1979); Anne O. Krueger, Liberalization: Attempts and Consequences (Cambridge, MA: Ballinger for the National Bureau of Economic Research, 1978); Anne O. Krueger, "Import Substitution Versus Export Promotion," Finance and Development 22, no. 2 (1985): 20-23; John Fei and Gustav Ranis, "A Model of Growth and Employment in the Open Dualistic Economy: The Cases of Korea and Taiwan," Journal of Development Studies 11, no. 2 (1975): 32-63; Helen Hughes, ed.,

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means by which a country can intervene into its economy are through microeconomic and macroeconomic policies. Neoliberals argued that if developing states would just allow macroeconomic prices to settle at equilibrium and avoid public budget deficits, their economies would develop most rapidly.[4] This would come about because the guiding hand of the market would distribute resources perfectly according to a country's comparative advantage allowing a maximization of growth potential. They also predicted that if this were not done, macroeconomic price distortion could lead to dire economic crises in the balance of payments and inflationary arenas. Economists called leaving macroeconomic prices to the market "getting the prices right." In terms of state intervention, neoliberals interpreted the East Asian NICs and the Latin American NICs as polar opposites. Applying their western, neoliberal theories, they attempted to show that the states of the East Asian NICs confirmed their idea that governments which do not intervene in their economies and let the free market be the distributor of resources tend to develop more rapidly. Further, they believed that governments which do distort the distribution of resources in the free market lag behind in development. They argued that the states in the Latin American NICs conformed more closely to this latter group. They hypothesized that the fact that the East Asian NIC's states were more authoritarian *vis a*

Achieving Industrialization in East Asia (New York: Cambridge University Press, 1988); Helen Hughes, "Explaining the Differences Between the Growth of Developing Countries in Asia and Latin America in the 1980s," in Industrial and Trade Policy Reform in Developing Countries, eds. Ramesh Adhikari, Colin Kilpatrick, and John Weiss (Manchester: Manchester University Press, 1992); Gustav Ranis, "Employment, Income Distribution, and Growth in the East Asian Context: A Comparative Analysis," in Export Oriented Development Strategies: The Success of Five Newly Industrialized Countries, eds. Vittorio Corbo, Anne O. Krueger, and Fernando Ossa (Boulder: Westview Press, 1985); Gustav Ranis, "Challenges and Opportunities Posed by Asia's Superexporters: Implications for Manufactured Exports from Latin America," in Latin America's Economic Development: Institutionalist and Structuralist Perspectives, eds. James L. Dietz and James H. Street (Boulder: Lynne Rienner Publishers, 1987); Ranis, "Model;" Jeffrey Sachs, "External Debt and Macroeconomic Performance in Latin America and East Asia," Brookings Papers on Economic Activity, no. 2 (1985): 523-73; Jenn-Jaw Soong, "The Political Economy of Development in the Newly Industrializing Countries: A Comparative Analysis of Taiwan, South Korea, Brazil, and Mexico" (Ph.D., diss. University of Florida, 1991); William G. Tyler, Manufactured Export Expansion and Industrialization in Brazil, *Kieler Studeren*, no. 134 (Tubingen: J. C. B. Mohr, 1976); World Bank, Brazil: Industrial Policies and Manufactured Exports (Washington D.C.: World Bank, 1983); and World Bank, The East Asian Miracle: Economic Growth and Public Policy (New York: Oxford University Press, 1993.

[4]Equilibrium to the neoliberalist does not mean a state of neutrality. Thus, equilibrium exchange rates should undervalue the domestic currency, equilibrium wage rates should be set low, equilibrium interest rates should be set high, and equilibrium rates of monetary expansion should mean a tight monetary policy.

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vis the states of the Latin American NICs helped explain why the former was able to maintain market equilibrium to a greater extent than the latter.

This group argued against microeconomic intervention, a more radical form of intervention, more vehemently than they did against macroeconomic intervention. This is because at least macroeconomic policy allowed the operation of a distorted market, but microeconomic intervention could potentially destroy the workings of the market altogether. Since the East Asian NICs developed faster than the Latin American NICs, the logic ran, these East Asian countries must have had less government intervention.

The industrial firm is the other interest group upon which this thesis focuses. As it turns out, a certain firm structure can also distort the free market. A monopolization or oligopolization of the various means of production can also restrict the markets ability to function normally. Monopolies and oligopolies will not compete to produce new product lines at competitive prices if their competition is limited. Occasionally, a neoliberal claims that the concentration of the East Asian NICs must have been less concentrated than its Latin American counterpart, since development occurred more rapidly in the former.[5] This occurs less often, however, since it runs counter to the empirical evidence.

About the relationship of different types of firms (ie., foreign, local and public) to development, neoliberal theory is even quieter pertaining to the comparative development of the East Asian and Latin American NICs. Public firms are seen as generally more inefficient than private firms because they consider the political motive over the profit one. In any case, public firms violate the economic law that government should stay out of the market. Generally, foreign firms are seen as positive since they are viewed as an avenue of technology transfer. In any case, a developing country should not hinder foreign direct investment (FDI) since to do so would impede the free flow of capital and impair the market. Domestic firms of a developing country are seen as no better or worse than

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[5]See Soong, "Newly Industrializing Countries," 304, 306, 307. Soong writes: "The ISI strategy accentuated another absurdity in Brazil and Mexico, namely, an unhealthy concentration of wealth among certain social groups and regions. . . [T]he bulk of government financial support accrued to big enterprises, which could manage without it because capital for them was not scarce. In contrast, small-scale industries, always along labor intensive lines, starved for capital. . . Korea's and Taiwan's EOI adopted labor intensive industries." What Soong fails to mention is that the East Asian NICs also went through a secondary ISI phase where these states also granted special favors to big business. Moreover, special favors to big business in the East Asian NICs were certainly not unheard of even during the EOI phase. This was especially true of Korea.

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foreign firms. If domestic firms can compete with foreign firms, they should be left untouched, but if foreign firms can produce more efficiently than domestic firms then the market will dispatch with them.

Recently, an alternate outlook has emerged, primarily expressed by political scientists.[6] They claim that state intervention into the economy was good, not bad. Some

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[6]For some good works describing the differences in Latin American and East Asian state strength, see Gereffi and Donald Wyman, eds., Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia (Princeton: Princeton University Press, 1990); Peter B. Evans, Dietrich Rueschemeyer, and Thelma Skocpol, eds., Bringing the State Back In (Cambridge: Cambridge University Press, 1985); Jenkins "Comparison;" Peter Evans, "Class, State, and Dependence in East Asia: Lessons for Latin Americanists." In The Political Economy of the New Asian Industrialism, ed. Fredric C. Deyo (Ithaca: Cornell University Press, 1987); Nigel Harris, The End of the Third World: Newly Industrializing Countries and the Decline of an Ideology (Harmondsworth: Penguin, 1986); Stephan Haggard, Pathways From the Periphery: The Politics of Growth in the Newly Industrializing Countries (Ithaca: Cornell University Press, 1987); and Tom Hewitt, Hazel Johnson, and David Wield, eds., Industrialization and Development (Oxford: Oxford University Press, 1992). The last work, in particular, focuses on Korea and Brazil. For this see Chris Edwards, "Industrialization in South Korea," in Industrialization and Development, eds. Tom Hewitt, Hazel Johnson, and David Weild. (Oxford: Oxford University Press, 1992); Tom Hewitt, "Brazilian Industrialization," in Industrialization and Development, eds. Tom Hewitt, Hazel Johnson, and David Weild (Oxford: Oxford University Press, 1992); and Rhys Jenkins, "(Re-)Interpreting Brazil and South Korea," in Industrialization and Development, eds. Tom Hewitt, Hazel Johnson, and David Weild (Oxford: Oxford University Press, 1992).

For the overriding importance of a strong state in Korean and East Asian development, see Amsden Giant; Richard P. Appelbaum and Jeffrey Henderson, eds., States and Development in the Asian Pacific Rim (Newbury Park: Sage Publications, 1992); Ha-Joon Chang, "The Political Economy of Industrial Policy in Korea," Cambridge Journal of Economics 17, no.1 (1993): 131-157; Fredric C. Deyo, ed., The Political Economy of New Asian Industrialism (Ithaca: Cornell University Press, 1987); Stephan Haggard and Chung-In Moon, "The South Korean State in the International Economy: Liberal, Dependent, or Mercantile?" in The Anatomies of Interdependence, ed. John Ruggie (New York: Columbia University Press, 1983); Clive Hamilton, Capitalist Industrialization in Korea (Boulder: Westview Press, 1986); Chalmers Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan," in The Political Economy of the New Asian Industrialism, ed. Fredric C. Deyo (Ithaca: Cornell University Press, 1987); Leroy P. Jones and Il Sakong, Government, Business, and Entrepreneurship in Economic Development: The Korean Case, Studies in the Modernization of the Republic of Korea: 1945-1975 (Cambridge, MA: Harvard University Press for Council on East Asian Studies, 1980); Hagen Koo, ed. State and Society in Contemporary Korea (Ithaca: Cornell University Press, 1993); Suk-Chae Lee, "The Heavy and Chemical Promotion Plan (1973-79)," in Economic Development in the Republic of Korea: A Policy Perspective, eds. Lee Jay Cho and Yoon Hyung Kim (Hawaii: University of Hawaii Press, 1991); Russell Mardon, "The State and Effective Control of Foreign Capital: The Case of South Korea," World Politics 43, no. 5 (1990): 111-138; Edward S. Mason et al., The Economic and Social Modernization of the Republic of Korea, Studies in the Modernization of the Republic of Korea: 1945-1975 (Cambridge, MA: Harvard University Press for Council on East Asian Studies, 1980); Richard Luedde-Neurath, Import Controls and Export Oriented Development: A Reassessment of the South Korean Case (Boulder: Westview Press, 1986); Yung Whee Rhee, Bruce Ross-Larson and Gary Pursell, Korea's Competitive Edge (Baltimore: Johns Hopkins University Press, 1984); Robert Wade, Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization (Princeton: Princeton University Press, 1990); and Gordon White and Robert Wade, eds., Development States in East Asia (London: Macmillan, 1988).

For works that consider a strong state integral to the development of Brazil and Latin America, but (often) complain that the state was still weak to obviate certain market failures, Fernando Henrique Cardoso and Enzo Faletto, Dependency and Development in Latin America (Berkeley: University of California Press,

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economists joined this group and developed a rationale for government intervention into the economy, particularly in the context of late development. They claim the assumption of a perfect market may have been appropriate in the case of developed countries; but in the case of late developing countries, market imperfections block the perfect distribu-tion of resources. They contend that if markets were left to themselves, they would thwart rapid development. Industrialization could be best served by states intervening to "get the price wrong" so that capitalists, because of a price subsidy, would invest in risky but developmentally important areas. Conversely, the state could make the investor forego pure consumption or speculative investments which contribute little to development.

1979); Werner Baer, "Political Determinants of Development," in Politics, Policies and Economic Development in Latin America, ed. Robert Wesson (Boston: Stanford University Press, 1984); Werner Baer, The Brazilian Economy: Growth and Development, 3d ed. (New York: Praeger, 1989); Werner Baer and Joseph S. Tulchin, eds., Brazil and the Challenge of Economic Reform (Baltimore: Johns Hopkins University Press for the Woodrow Wilson International Center for Scholars, 1993); Antonio Barros de Castro, "Renegade Development: Rise and Demise of State-Led Development in Brazil," Democracy, Markets and Structural Reform in Latin America: Argentina, Bolivia, Brazil, Chile, and Mexico, eds. William C. Smith, Carlos H. Acuna, Edwardo A. Gamarra (Miami: University of Miami, 1994); David Collier, ed., The New Authoritarianism in Latin America (Princeton: Princeton University Press, 1979); Ruth Berins Collier, "Popular Sector Incorporation and Political Supremacy: Regime Evolution in Brazil and Mexico," in Brazil and Mexico: Patterns in Late Development, eds. Sylvia Ann Hewlett and Richard S. Weinhart (Philadelphia: Institute for the Study of Human Issues, 1982); Peter Evans, Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil (Princeton: Princeton University Press, 1979); Albert Fishlow, "Origins and Consequences of Import Substitution in Brazil" in International Economics and Development: Essays in Honor of Raul Prebisch, ed. Luis Eugenio di Marco (New York: Academic Press, 1972); Albert Fishlow, "Some Reflections on the Post-1964 Brazilian Economic Policy," in Authoritarian Brazil: Origins Policies, and Future, ed. Alfred Stepan (New Haven: Yale University Press, 1973); Albert Fishlow, "A Tale of Two Presidents: The Political Economy of Crisis Management," in Democratizing Brazil: Problems of Transition and Consolidation , ed. Alfred Stepan (New York: Oxford University Press, 1989); Albert Fishlow, "The Latin American State," Journal of Economic Perspectives 4, no. 3 (1990): 61-74; Sylvia Ann Hewlett, "The State and Brazilian Economic Development: The Contemporary Reality and Prospects for the Future," in The Future of Brazil, ed. William H. Overholt (Boulder: Westview Press, 1978); O'Donnell, Bureaucratic-Authoritarianism; Edson de Oliveira Nunes and Barbara Geddes, "Dilemmas of State-led Modernization in Brazil," in State and Society in Brazil: Continuity and Change, eds. John D. Wirth, Edson de Oliveira Nunes, and Thomas E. Bogenschild (Boulder: Westview Press, 1987); O'Donnell, Bureaucratic-Authoritarianism; Jose Serra, "Three Mistaken Premises Regarding the Connection between Industrialization and Authoritarian Regimes," in The New Authoritarianism in Latin America, ed. David Collier (Princeton: Princeton University Press, 1979); Kathryn A. Sikkink, "Developmentalism and Democracy: Ideas, Institutions, and Economic Policy Making in Brazil and Argentina, 1954-1962" (Ph.D. diss., Columbia University, 1988); Thomas E.Skidmore, Politics in Brazil, 1930-1964: An Experiment in Democracy (New York: Oxford University Press, 1967); Thomas E. Skidmore, "Politics and Economic Policy Making in Authoritarian Brazil, 1937-71," in Authoritarian Brazil: Origins, Policies, and Future, ed. Alfred Stepan (New Haven: Yale University Press, 1973); Thomas E.Skidmore, The Politics of Military Rule in Brazil, 1964-1985 (New York: Oxford University Press, 1988); and Thomas E.Skidmore,"Brazil's Slow Road to Democratization: 1974-1985," in Democratizing Brazil: Problems of Transition and Consolidation, ed. Alfred Stepan (New York: Oxford University Press, 1989).

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Intervention into macroeconomic prices is only one way governments can intervene. Another is through microeconomic intervention or command. Market failure theorists hypothesize that if macroeconomic intervention is good, microeconomic intervention, which envisions heavier doses of state intervention into the economy, must be even better. Jones and Sakong are two neoliberals which find Korea's extensive use of microeconomic controls vexing and, ironically, find themselves as unwilling proponents of microeconomic intervention rather than macroeconomic intervention. They write: "This paradox must now be explained. . . . Our answer is that Korea is a 'hard state'. . . . [The] two major determinants of hardness [are] . . . the ability to enforce obligations via compulsion and the ability to direct administrative discretion toward desirable ends."[7] This is contrasted with the "soft" state where microeconomic intervention will not work because obligations are not enforced and administrators are not directed to work toward desirable ends. The conclusion of these authors is that macroeconomic intervention "is limited to overcome market imperfections . . . [and that] command is far quicker . . . but very risky and accordingly must be administered with skill or luck or both. . . . The question is, then, not whether command is necessary for rapid development, but the wisdom of the ends towards which it is directed and the degree to which it is enforced."[8] Market failure theorists questioned whether the East Asian and Latin American NICs were as different in terms of state intervention into the economy as neoliberal theorists claimed.

Market failure theorists point to wise intervention in both the Latin American and East Asian NICs as a reason for their shared experience at rapid economic development in the postwar period. They propose that the East Asian NICs intervened more profoundly in their economies through microeconomic means and, not inconsequentially, through macroeconomic means. While the Latin American NICs may have intervened more heavily by macroeconomic means than their East Asian counterparts, these Latin American states did not possess the state capacity to command the private sector in the way that the East Asian NICs did. Consequently, the East Asian NICs developed more rapidly than the Latin American NICs. The humor in the fact that it was the economists, who contrived to

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[7]Jones and Sakong, Government, 132, 133.

[8]Ibid., 134.

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describe state intervention as bad, and political scientists, who tried to paint state intervention as good, is not lost on Fishlow: "Even while political scientists have been trying to bring the state back in, economists have been trying to take it out."[9]

Market failure theorists also argue that a certain industrial structure was conducive to development. They see domestic firms as preferable to foreign firms. When domestic firms own the technology they acquire, the countries are not dependent on foreign firms for the technology. Another concern is that foreign firms tend to remit their profits, but domestic firms keep their profits at home where they can be reinvested. They contend that, at least in maximizing industrial modernization, a large (domestic) firm is essential to improve productive efficiency, facilitate the acquisition of and research into technology, and be competitive on a world market against firms of a similar scale abroad.

These theorists claim that the East Asian NICs developed more rapidly since they closed their markets to foreign investment and promoted the expansion of domestic firms, while the Latin American NICs relied heavily on foreign firms as well as public firms. Foreign firms allowed substantial development in Latin America, just not as rapidly as had occurred in East Asia. They often suggested that the public firms in the Latin American NICs and East Asian NICs helped these countries overcome market failure and thus were slow to criticize the tremendous public firm expansion in Latin America. Both the Latin American NICs and East Asian NICs had a large firm size with a highly oligopolized market, and this contributed to their a ability to develop rapidly. They also claimed that the East Asian NICs had larger firm size operating in a more oligopolized market than the East Asian NICs, which helped explain their more rapid development *vis a vis* the Latin American NICs. In sum, these NICs share a number of common traits, including very interventionist states, extremely large firms with a high degree of oligopolization, and a common comparative advantage in industrialization (ie., learning).

THEORETICAL SHORTCOMINGS

This review of the literature points to the fact that the differences in the economic

[9] Fishlow, "State," 61. The work to which Fishlow refers is Evans, Rueschmeyer, and Skolpol, <u>Bringing the State Back In</u>.

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development of the East Asian NICs and the Latin American NICs attracted first attention to these comparative political economies. It is partially due to the excessive concern with the differences in the comparative political economies of these regional NICs that other issues have been neglected. Namely, the East Asian NICs and the Latin American NICs have basic commonalities to their political economic that are just recently being described.

There are more subtle weaknesses of the neoliberal approach. It fails to recognize the importance of state intervention in promoting development. Further, it often fails to recognize the profound state intervention into the economy in the East Asian NICs, while overplaying the substantial amount of such intervention in the Latin American NICs. This flaw follows from the related flaw that neoliberal scholars tend to espouse macroeconomic intervention to the exclusion of microeconomic intervention. This approach often fails to address the issue of market distortion created by oligopolization in the East Asian NICs or how it slowed the development of the development of a nation whose rates of development are unprecedented. Neoliberalism also frequently fails to address the various influences of the different types of productive social groups on economic policy and economic development.

While the alternative approach, market failure theory, may be right about the regularities or common aspects in East Asian and Latin American NICs political economies, this approach has some subtle shortcomings. First, it tends to underplay the real relationships that can be derived from the neoliberal analysis of market prices on economic development. Acknowledging the fact that high macroeconomic price distortions exist in the East Asian NICs, one neoliberal correctly counters market failure theorists' minimization of free market forces by stating that the East Asian NICs "clearly got one very important price right, the exchange rate, but that is as far as Korea and Taiwan got in the 1960s and 1970s. Another market where prices were not distorted throughout the region was the labor market."[10] The fact is that, in some areas, free market macroeconomic prices do work according to classical neoliberal interpretations and should not be discounted out of hand. In other areas, such prices may work differently to neo-

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[10]Dwight H. Perkins, "There Are At Least Three Models of East Asian Development," World Development, Special Issue, The World Bank's *The East Asian Miracle: Economic Growth and Public Policy* 22, no. 4 (1994): 659.

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liberal's classic interpretations or may not work at all due to market failures. It is up to the researcher to ascertain which is which. Moreover, macroeconomic intervention has an effect on development and should not be subjugated entirely to microeconomic intervention. Both types of intervention have potential costs and their advantages and these must be weighed carefully by the academic community and Third World policymakers. Along these lines, there is substantial evidence that, if not handled with extreme care, large macroeconomic price distortions do cause eventual crises in the areas of balance of payments and inflation as demonstrated by the Latin American NICs in the 1980s. Similarly, there is substantial evidence that, if not handled with obsessive caution, direct government intervention can result in economic catastrophes such as the fall of the Soviet Union, the crisis in North Korea, or the Chinese situation during the Cultural Revolution. Specifically, the alternative approach must acknowledge the limitations of the public firm as addressed by the neoliberal. Public firms may have their place in overcoming market failure, but their overuse may result in an economy with large productive inefficiencies or may, if prices are lowered for political reasons, contribute to economic collapse.

There are four major shortcomings of both neoliberalism and market failure theory. First, many analysts from both schools neglect to recognize the similarity between neoliberalism and market failure theory. Lall's review of the East Asian Miracle by the World Bank contends that once one concludes that in developing countries, markets are imperfect, neoliberalism becomes market failure theory. Following this reasoning, she further contends that once market failure is accepted, there is no economic reason to reject state economic intervention as misguided.[11]

A second shortcoming of both schools falls on the political side. Both schools often implicitly view authoritarianism as a sufficient, if not a necessary, condition to ensure technocratic expertise is realized as effective economic policy. This is true whether the scientist categorizes a successful authoritarian state as noninterventionist (as a neoliberal might) or interventionist (as a market failure theorist might). The failure of each theory to recognize explicitly the linkages between the connection of authoritarianism and

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[11] Sanjaya Lall, "*The East Asian Miracle*: Does the Bell Toll for Industrial Strategy?" World Development, Special Issue, The World Bank's *The East Asian Miracle: Economic Growth and Public Policy* 22, 4 (1994): 647, 648. See also World Bank, Miracle.

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development or the fact that both schools share common ground on such linkages is a definite flaw in both. "Occasionally the need for a 'strong state' in order to implement the policy package [of the neoliberal or market failure theorist] is mentioned, but both theories are somewhat coy about the links between their theories and authoritarianism."[12]

A third shortcoming of research goes to the heart of the approach of political economic research generally and of the approaches of the neoliberal and market failure theory as they deal with the specific area of the East Asian and Latin American NICs comparative political economy. The objective of research into political economy is to view interest groups lobbying the state. The state constructs its economic policy in relation to the power of these interest groups. In turn, the approach of political economy is to view economic policy as an important variable affecting economic development. (For an example of this approach as will be used analyzing the cases of South Korea and Brazil, see figure 1.) However, interest groups are not the sole influence on economic policy.

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[12]Jenkins, "(Re-)Interpreting," 197. This source is quite pertinent to the matter at hand since it objectively looks at the way the two theories views Korea and Brazil and critiques both. Despite this *coyness* of which Jenkins speaks, many authors offer words of caution to developing countries seeking to emulate the bureaucratic-authoritarian (B-A) model. Below are a few examples of such caution dealing with Korea in its authoritarian "growth-first" mode. Amsden, Giant, 18 cautions against late developers emulating the authoritarian model: "It is unclear whether the strong economic measures taken by the Korean state could have been taken under political democracy, although Japan, the statist European countries, and recent events in Korea all suggest that such measures and political democracy are comparable. What is clear is that, without strong central authority, a necessary although not sufficient condition, little industrialization can be expected in 'backward' countries. Haggard, Pathways, 256 seems to comply. Wade skirts the issue of authoritarianism while emphasizing that not all countries may have the capacity for state leadership found in East Asia, a followership state may be worth pursuing though it is not preferable to a leadership state. See Robert Wade. "Industrial Policy in East Asia: Does it Lead or Follow the Market," in Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia, eds. Gary Gereffi and Donald L Wyman (Princeton: Princeton University Press, 1990), 261-262.

A conflicting body of evidence exists on regime type and economic performance. For general reference, see William G. Dick. "Authoritarian versus Nonauthoritarian Approaches to Economic Development," Journal of Political Economy 82 (July/August 1974): 817-827; Robert Marsh, "Does Democracy Hinder Development in Latecomer Developing Nations?" Comparative Social Research, no. 2 (1979): 215-249; and Erich Weede, "The Impact of Democracy on Economic Growth: Some Evidence From Cross-national Analyses," Kyklos, no. 36 (Fasc. 1 1983): 21-40. For inconclusiveness of the evidence in Latin America, see the conflicting analyses in David Collier, New Authoritarianism; Jonathan Hartlyn and Samuel A. Morley, eds., Latin American Political Economy: Financial Crisis and Political Change, (Boulder: Westview Press, 1986); O'Donnell, Bureaucratic-Authoritarianism; Karen Remmer, "The Politics of Stabilization: IMF Standby Programs in Latin America, 1954-1984," Comparative Politics 19 (October 1996): 1-25;Thomas E. Skidmore, "The Politics of Economic Stabilization in Post War Latin America," in Authoritarianism and Corporatism in Latin America, ed. James M. Malloy (Pittsburgh: University of Pittsburgh Press, 1977); and John Sheahan, Patterns of Development in Latin America: Poverty, Repression, and Economic Strategy (Princeton: Princeton University Press, 1987).

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Periodic world crises and opportunities, both intervening variables, can profoundly condition a country's economic policies. Likewise, such intervening variables also affect economic development directly as well as indirectly (ie., through economic policy).

A related shortcoming in relation to the East Asian and Latin American NICs has to do with the conception of interest groups lobbying the state and forging developmental alliances with it. The strongest argument that can be made for interest group pressure determining economic policy is in the context of true democracy. This connection is hardly straightforward in the cases of the East Asian NICs and the Latin American NICs. In these cases, the condition of a representative government was not even obtained during these countries' periods of democracy, much less during their B-A regimes.

SOME LIMITED ADVANCES

What has been described above is not to deny a recognition of a limited, albeit vital, progress in the study of the comparative political economy of the East Asian NICs and the Latin American NICs. Advances in the state of such knowledge about the nature of the development process are partially a function of greater numbers of better qualified researchers. These researchers have discovered the positive influence that the state and private institutions can have on economic development. Considerable improvement has also been made in regard to the recognition that neoliberalism and market failure theory share much intellectual space both in political and economic areas. These respective schools are not mutually exclusive, but converging and interactive.

Above, study of development by way of the political economy double hypothesis (see figure 1) was also said to have some problems with extraneous variables. In addition, this hypothesis had trouble showing a clear relationship between interest group influence on the state and state policies. Even admitting the problems, this is a useful model. Even if the democracy is not truly representative and even if the authoritarianism is extreme, the state forges alliances with certain groups. Policy responds to those groups, either directly or indirectly. That policy, in turn, affects economic development. While the nature of this relationship and the nature of factors involved is a subject of debate, few would discount that such a relationship does exist or that such factors are important. Intervening variables

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can be dealt with and weighed according to their relative influence on economic policies and economic development. By acknowledging the existence of the above-mentioned intervening variables and indirect linkages between interest groups and policy, this paper attempts to largely overcome these defects.

This paper tries, by looking at only a case from each region instead of all four East Asian and Latin American NICs, to avoid some of the stereotypification of the differences of countries of East Asia and Latin America that has occurred elsewhere. Particularly, this paper adopts the perspective of the market failure theorist that, in matters of state strength and intervention, the NICs are more alike than different. Moreover, it argues that wise state intervention can help late developing firms overcome market failure. Even the most conservative of neoliberals would probably admit that macroeconomic intervention is a necessary evil, though he or she would suggest that it be used with great care and discontinued as soon as possible. However, macroeconomic intervention is inherently slower than microeconomic intervention and many developing countries cannot afford to wait. Still, even greater care must be taken in the way microeconomic intervention is applied than that which is true of macroeconomic.

This paper also embraces the assumptions of market failure theory that the nature of industrial firms is a critical determinant of development. It contends that the oligopolized firm has a competitive advantage on the world market. It finds domestic firms to be the more preferable mode of dominance in production for the developing country rather than foreign firms. But it takes a neoliberal view of public capital dominating the economy, though it would not argue that public firms do have their place in late development.

Though this paper tends to side with the market failure theorists on most issues, it submits that there is an inherent validity to most of the relationships described in the neoliberal. These relationships hold true to the greatest extent in the developed countries. In some cases, they work in developing countries and in others they do not. Sometimes these relationships work in different and even opposite ways than what the neoliberal postulates. It also recognizes the complementary nature of each of these theories to the other. Both theories are valid within their own context. Above, this paper analyzes how two theories interpret the comparative developmental process of the East Asian NICs,

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including Korea, and the Latin American NICs, including Brazil. In the next section, this paper analyzes in more detail how the theories which will be used in the remainder of this paper, market failure, explains the comparative developmental process of the case studies. In accordance with market failure theory, the section below contends that the common features in Brazil and Korea's comparative political economies far outweighed the differences, though it admits that certain differences remain. The subtle, but critical, differences in institutions, developmental alliances, and economic policies are posited as the reason Korea developed more rapidly than Brazil.

MARKET FAILURE THEORY AND THE CASE STUDIES

This section focuses on the major institutions (the state and the firm) engaged in industrialization in Korea and Brazil and the alliances these institutions forge. It also looks at the economic policies in these countries. Finally, this section considers economic development as it occurred in the case studies. The sections on institutions and economic policies are intended as a literature review to help the reader understand these regularities and differences. This section on such comparative economic development is in statistical form with some interpretive analysis. Below, the paper begins with a discussion striking similarities and lesser differences of the two major institutions (the state and firms) associated with the development process in Brazil and Korea. Within the text of the two subsections on the state and firms, the paper suggests the strong similarities and subtle differences in the developmental alliances these institutions form in the case studies.

MAJOR INSTITUTIONS

The State

The first institution this thesis will study is the state. The single most contentious issue in academic circles in recent years has been whether an interventionist state promotes development or hinders it. As mentioned above, neoliberals claim that since the free market is the perfect distributor of wealth among different sectors of the economy, state economic intervention stymies economic development. Thus, neoliberals tend to contrast the interventionist state of Brazil (or those of Latin America) with the noninterventionist

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state of Korea (or those of East Asia).[13] However, as discussed previously, other scholars have recently offered an alternative (or market failure) view. They believe that, particularly in developing countries, market failures either prevent new comparative advantages from being realized or impede development to the extent that societal welfare is not maximized. Consequently, the state should intervene in the economy to mediate market forces in a way which promotes economic development. Amsden gives a good description of how market failures affect late industrializers and how the state in such cases has worked to remedy such failures.

> The inherent conflicts of the market apply to all users, rich and poor alike, but the conflicts are sharpest among the least well endowed. Countries with low productivity require low interest rates to stimulate investment and high interest rates to induce people to save. They need undervalued exchange rates to induce exports and overvalued exchange rates to minimize the cost of foreign debt repayment and of imports--not just raw materials, which rich and poor countries alike require, but also intermediates and capital goods, which poor countries alone but are unable to produce. They must protect their new industries from foreign competition, but they require free trade to meet their import needs. They crave stability to grow, to keep their capital at home, and to direct their investment toward long term ventures. Yet the prerequisite to stability is growth.
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> Under such disequilibriating conditions the state's role in late industrializing countries is to mediate market forces. The state in late industrialization has intervened to address the needs of both savers and investors, and of both exporters and importers, by creating multiple prices. Some interest rates are higher than others. Importers and exporters face different prices for foreign currency. As far as the state in late industrialization has intervened to establish multiple prices in the same market, the state cannot be said to have gotten the relative prices "right" as dictated by supply and demand. In fact, the state in late industrialization has set the relative prices deliberately "wrong" in order to create profitable investment opportunities.[14]

Thus, the new literature contends that while the Brazilian state may have identified and intervened to overcome many market failures, the Korean state identified and intervened to overcome more market failures than Brazil. Thus, while Brazil was able to develop rapidly, Korea was able to develop faster.

As this thesis analyzes and establishes its position on the comparative magnitudes

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[13]Rhys Jenkins. "Comparison." 197-198.

[14]Amsden. Giant. 13-14.

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of the differences and similarities in Korean and Brazilian developmental models, it must determine whether the states in Brazil and Korea were more different than alike (as the neoliberal view contends) or whether the states in Brazil and Korea and other late developers were more alike than different (as the market failure view contends). This thesis has found more evidence in favor of the latter view on this count. Below, much of this section is devoted to the task of establishing its position on the (small) amount of difference between state interventionism in Korea and Brazil. It does this by eliciting observations by leading scholars defending this contention. The case for widespread economic intervention may be easier to document for Brazil than for Korea. This is because, while the Brazilian state's intervention into the market is common knowledge, "[t]he 'alternative' literature emphasizing the role of the state in the Korean development experience is still in its infancy."[15] This paper contends that the East Asian NICs (including Korea) and Latin American NICs (including Brazil) were not so different in that they both possessed states willing to intervene in the economy so that the state could distort prices to make certain forms of economic activity more profitable than others.

Still, the nature of the state was not identical in these countries. In Korea, General Park Chung Hee assumed the presidency in the wake of the 1960 military coup. Both the strong nature of the state and the ideological base for its strategy "should at least partly be understood as an action of the conscious actions taken by the military regime of Park Chung Hee, which fundamentally shaped the political economy of the country for decades to come."[16] But the die had already been cast. After Park's assassination, the military regime was quickly reestablished, after a short interruption by a democratic regime, by the rulership of Chun Doo Hwan which lasted for the next eight years and bore striking likeness to the Park model, despite some moves toward liberalization (more apparent than real) and a concrete dedication to orthodox macroeconomic policy.

Since Park had been educated in Japan and the Japanese had either trained or educated the preponderance of the members of the bureaucracy, Japanese economic philosophy is a logical place to begin. While Japan is cited as a bastion of Western capitalism,

[15] Chang, "Industrial Policy," 131.

[16] Ibid., 151.

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this is a gross overgeneralization. Far from studying neoliberal theories, Japanese academia in the mid-twentieth century was centered on the theories of dependent development proffered by Karl Marx, Joseph Schumpter, and Friedrich List. The Korean ideology of anti-communism sat uncomfortably with the technocratic belief in "guided capitalism."

A number of important ideas followed from this education. The state in both cases emphasized industry with its developmental policy and such development was cased as a struggle against an unfriendly market, that if left undisturbed, would lead only to slow growth. While the Koreans may have internalized the Japanese model, they also refined and condensed it. Thus Korea, like Japan, did not trust macroeconomic intervention into the economy because of the uncertain influence on particular sectors. Instead, the Asian model emphasized intervention into individual sectors and firms (microeconomic intervention). The state annually set parameters for how much prices in specific commodities would be allowed to rise. "It is not clear to us what could be more 'stifling', if so many firms have so little freedom to decide what and how much to produce at what price."[17]

The Japanese economic philosophy, also unlike neoliberalism, did not view competition as healthy. On the contrary, oligopoly was encouraged so that social waste could be avoided. But such capital accumulation was to be carried out by local firms, since Korea followed Japan's lead in distrusting large agglomerations of foreign investment. Domestic firms would have to undertake the difficult task of learning so the fruits of technology could be enjoyed by national firms and the national economy, not by foreign firms and foreign economies. East Asian corporatism required the state to ensure that profits be reinvested at home to expand the domestic industrial empire, instead of having foreign firms export their profits so that they could contribute to empire building elsewhere. Similarly, there was no contest concerning the distribution of wealth between the working and the capitalist class. Since the state emphasized industrial investment, wealth would not go to labor for consumption but would go to investment. Complementing this anticonsumption bias, exporting was simultaneously encouraged so that rents from the world market, not the domestic, were realized to the greatest extent possible. Out of this Japanese model, the Park administration forged alliances with traditional industrialists to

[17]Ibid., 138.

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become exporters and with progressive entrepreneurs to become industrially diversified. The state disciplined both traditional firms and more modern ones to serve in their respective roles.[18] The state required exporting of both types of firms. The state-owned banking system became the major instrument of discipline in B-A Korea.

Quite apart from the Korean situation, the initial Brazilian military government had an almost dichotomous belief in orthodox principles of the free market, on the one hand, and of state intervention into the market, on the other. This dichotomy lead to policy inconsistencies within single military regimes as well as larger inconsistencies between successive military regimes. While the Korean state commanded nearly every detail of its economy, the Brazilian state was more comfortable with a mix of intervention and markets. Such a detailed plethora of microinterventions as occurred in the Korean case was a little too radical to sit well with the Brazilian state's orthodox counterpart. Castello Branco and his bureaucracy had been educated in Brazil and in America. Castello Branco's domestic education had come from the Brazilian Military College. The military college emphasized anti-communism and distrusted heavy intervention into the economy.[19] Economic philosophy in Brazil was mixed with some elements believing in heavy doses of state intervention so that the national destiny of Brazil to be a great power could be effected with greatest speed. On the other hand, most economic philosophy in America follows the principles of orthodoxy or neoliberalism. Thus, a deep rift existed in Brazil over the "correct" economic philosophy Brazil should utilize in its development plans.

A number of ideas flowed from the technocratic elite in the Brazilian state. From the belief in liberal democracy flowed the belief that Brazil, though authoritarian, should not be ruled by a single dictator. Consequently, Brazil was ruled by four major presidents during the twenty years of military rule. The policy of each had little to do with the its successor. Castello Branco tried to deal with the problems of foreign debt, balance of payments deficits, and inflation by infusing the economy with a policy of extreme neoliberalism which crippled growth and did not slow inflation. Medici loosened monetary

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[18]Ibid., 148 and Amsden, Giant, 69, 74.

[19]The exception to this free market ideology of the Brazilian military lay in their belief in expansion of public enterprise and in their increasing conversion to larger doses of macroeconomic intervention.

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policy which not only slowed inflation but also brought about the most rapid capital accumulation Brazil has ever seen. Geisel heavily manipulated macroeconomic prices to encourage a period of industrial modernization. Figueiredo tried to deal with the foreign debt crisis, balance of payments deficits, and inflation by resorting, like Castello Branco, to extreme neoliberalism which crippled economic growth and did not slow inflation.

The dichotomy in economic ideology was not only felt *between* different regimes but *within* each of them as well. Out of an attempt to rationalize between the philosophies of state nonintervention into the economy and state intervention, Brazilian heterodoxy was born. To rationalize this dichotomy, Brazil opted for macroeconomic intervention instead of microeconomic intervention. With macroeconomic intervention, market forces were still allowed to operate, but they did this under a distorted price structure. Firms would still be able to carry out their basic investment decisions "freely" within this distorted market. Under microeconomic intervention, the state would have been required to tell private firms what to produce, at what price, and how much of it to produce. However, the state in both Korea and Brazil did direct firms in the destination of the goods produced. While the Korean emphasis was on directing its goods to foreign consumers, Brazilian emphasis, under its ISI economy, was on directing its products to domestic consumers. Consequently, in the Brazilian setting, a conflict emerged between how much wealth to distribute to consumers and how much wealth to distribute to producers. Since the state in the latter part of its B-A period left this decision unresolved and did not use its indexing system effectively to control price increases and wage increases, a fight for shares of wealth emerged in Brazil which became a leading source of Brazilian inflation.

Like Korea, Brazil encouraged an oligopolized firm structure to emerge, though not quite so oligopolized as the Korean case. The forms this oligopoly took were also different. Brazil had been more cosmopolitan toward foreign capital in the 1950s, and this resulted in most oligopolized firms in the dynamic sectors in foreign hands in the 1950s and 1960s. To avoid market failure in the 1970s, Brazil wished to, but could not, direct the investment of foreign firms as easily as the Korean state could direct the investment of its local firms. In the wake of the 1950s' massive FDI inflow, Brazil also no longer had a dynamic local capitalist class. Consequently, the Brazilian state created or expanded

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public firms to enter some heavy, basic, and infrastructural industries.

However, the legacy of profound foreign capital penetration in Brazil was not the only deciding factor in the expansion of the public sector: the fact is that the state's ideology in Brazil would not permit it to tell the private sector what to produce and so it introduced public firms for this purpose. While the major microeconomic tool in Korea was the state-owned banking system that directed local firms to behave in desired patterns, the major microeconomic tool in Brazil was the state-owned firm. This created a second-best world in both cases: in terms of maximizing development, local firms would have been the preferable device to modernize industrial structure as opposed to foreign capital or public capital. Public firms are often less efficient producers than private, and foreign firms cannot be directed to maximize national development to the extent that local firms can. Brazil's partial faith in the market caused it to use macroeconomic policy to a greater extent than microeconomic policy and caused it to use different (and less effective) microeconomic tools as well. State ideology and intervention in both Brazil and Korea was directed toward the promotion of the industrial elite. But the different brands of ideology and intervention in Brazil and Korea led to a different set of industrial elite in each country. While Korea's stronger state promoted a level of industrial concentration and shaped the behavior of its producers, Brazil's weaker state did not work effectively with its industrial producers. However, differences in state strength in Korea and Brazil was one of degree and not of kind: Brazil and Korea both had strong states.

Not only was the relative strength of Brazil and South Korea more similar than different, but the variations in such strength seem to conform to variations in state developmental policy. Cumings writes: "[Park's B-A] regime was the political consequence of timing and sequence in industrialization, and the requisites of 'late-late' development in the 1970s. It was comparable in important ways to the Brazilian case, especially during its growth spurts (1968-74) and its 'deepening' (1974-78)."[20] Hence,

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[20]Bruce Cumings, "The Abortive *Abertura*: South Korea in the Light of the Latin American Experience," New Left Review , no. 197 (January/February 1989): 7. Market failure theorists who associate development with authoritarianism are likely to be part of the B-A theoretical camp. This camp includes both Latin American and Korean scholars: the original coonceptualization of B-A theory was O'Donnell, Bureaucratic-Authoritarianiam. In this work, he related the theory of B-A to a number of Latin American countries. Of all theses countries, O'Donnell claimed that Argentina and Brazil demonstrated the closest fit of

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proper attention will be given in the following chapters to the implications of major regime changes for economic development in the following chapters.

Aside from the issue of the coincidence of changes of economic policy and changes in political regime types is the issue of whether authoritarian governments are better able to industrialize more rapidly than democratic ones. Korea developed most rapidly under conditions of authoritarianism, while Brazil seems to have industrialized just as rapidly (or more so) under conditions of democracy as they did under authoritarianism. Granted, the Brazilian democracy accomplished its rapid industrialization via a heavy influx of foreign firms, which proved a sub-optimal result in the long-run. However, there is more to the story of industrialization than purely political considerations. These countries industrialized with an interaction of political and economic actors which is explored below.

Industrial Firms

Above, this thesis has emphasized the importance of the similarities in the state (in

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model to country. Though a seminal work, it had its critics. In fact, editor David Collier, New Authoritarianism elicited scathing critiques of the model form esteemed contributors. Even now this work is considered one of the classic studies of Latin America. Also, see James M. Malloy, ed., Authoritarianism and Corporatism in Latin America (Pittsburgh: University of Pittsburgh Press, 1977) and especially the contribution by O'Donnell, "Corporatism and the Question of the State." Also see Guillermo O'Donnell, "Reflections on the Question of Change in the Bureaucratic Authoritarian State," Latin American Research Review, 12, no. 1 (1978): 3-38.

After the early work of O'Donnell, some have tried to show the relationship between change in industrial strategy and regime "hardening." The state in South Korea is said to grow more authoritarian as it shifts to a new industrialization strategy so that it can be objective in deciding how to maximize national development. Otherwise, it is said the state might run the risk of pandering to the complaints of industries which were subsidized under the previous industrialization strategy but excluded from subsidization under the new one. In any case, such a shift might lead to distributional conflicts or, in other words, objections from entrenched interests and lead to societal unrest which might call a police state into action. Bruce Cumings was among the first to elaborate the merits of the bureaucratic-authoritarian model in terms of South Korea. See Bruce Cumings, "The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences," in The Political Economy of the New Asian Industrialism, ed. Fredric C. Deyo (Ithaca: Cornell University Press, 1987); Bruce Cumings, "Abortive *Abertura*,"5-32; Bruce Cumings, "World Systems and Authoritarian Regimes in Korea, 1948-1984," in Contending Approaches to the Political Economy of Taiwan, eds. Edwin A. Winkler and Susan Greenhalgh (Armonk: M. E. Sharp, 1988); Hyung Baeg Im, "The Rise of Bureaucratic Authoritarianism in South Korea," World Politics, 39, no. 2 (January 1987): 231-257; Han Sang-jin, "Bureaucratic Authoritarianism and Economic Development in Korea during the Yushin Period," in Dependency Issues in Korean Development, ed. Kim Kyong-dong (Seoul: Seoul National University, 1987); Jan Jip Choi, "Political Cleavages in South Korea," in State and Society in Contemporary Korea, ed. Hagen Koo (Ithaca: Cornell University Press, 1993); Cotton contends that the B-A perspective is inappropriate in James Cotton, "Understanding the State in South Korea: Bureaucratic-Authoritarian or State Autonomy Theory?" Comparative Political Studies 24, no.4 (January 1992): 512-531.

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terms of autonomy and interventionism) in explaining similar outcomes in terms of economic policy and economic development in Korean and Brazil. Moreover, the above has underscored the importance of subtle differences in the state (in terms of autonomy and interventionism) in explaining (mostly) subtle divergences in terms of economic policy and economic development. While the rationale, as discussed above, of heavy state intervention is to correct for market failures, the presence of other groups besides local capital inhabiting a dominant position in industrial production will be considered a market failure. While this thesis will discuss both market failures of public and foreign domination of a country's productive structure, Lall does a good job describing the reasons that foreign firm domination can be considered a market failure and thus should receive state intervention to prevent such an outcome.

> [It has been noted long ago] that the free market may fail to ensure optimal innovative activity because of imperfect appropriability of information and skills. Developing countries, however, face an additional problem. It is generally easier to import foreign technologies fully "packaged," where the process is commercially proven, and where the supplier provides the hard and software, does the startup, training and adaptation, and manages the operation and marketing. *In its extreme form, fully internalized technology transfer takes the form of wholly foreign-owned direct investment (FDI)* [emphasis mine]. This is an effective and relatively less risky way to access foreign technology, but it leads to little technology acquisition in the developing country apart from production skills. The movement from production to innovative activity involves a distinct strategic decision which foreign investors tend to be unwilling to take in developing countries. There is generally less investment in design, development and innovation in foreign firms compared to local firms, and the externalities generated by the technological activity that does take place tends to be captured by the investor rather than the host economy.
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> *There is, in other words, a risk of market failure in capability deepening because of learning costs, very similar in nature to infant industry considerations. To ensure socially optimal allocation, it may be necessary to restrict technological import in "internalized" forms and promote those in "externalized" forms (licensing and equipment): here the buyer has to do much more "homework" and so can develop broader and deeper capabilities* [emphasis mine]. . . . In order to bear the risks, costs and expenses of locally absorbing . . . very complex technologies, it may be necessary to promote large firm size. Technological deepening can be a legitimate goal of industrial policy, since development of indigenous design and innovative capabilities have many beneficial externalities . . . [like]

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the development of local suppliers and subcontractors.[21]

While the state was very important in determining these outcomes, the industrial firms were, of course, very important in the determination of economic policy and economic development. Corresponding to the model proposed above, this thesis will contend that major similarities in the influence of the industrial firm in determination of state economic policy led to pro-industrial policies in Brazil and Korea. These pro-industrial policies furthered industrialization in Korea and Brazil contributed to high rates of industrialization in Korea and Brazil. Moreover, the centrality of industrial production among other interest groups meant that industrialization would progress rapidly in both countries. Nevertheless, the differences among the types of capital in Korea and Brazil led to policy and developmental differences in these countries.

In essence, this section on the industrial firm is the complement of the former section on the state. While the former section attempted to show how the autonomy of the state had important implications for development in Korea and Brazil, this section describes how limits on that autonomy also had important implications for policy. While the previous section focused on the state, primarily, and firms, secondarily, this section focuses on firms, primarily, and the state, secondarily. In both cases, the firm and the state are given special attention, because of their centrality in industrialization. The rise of state intervention and the rise of a particular type of firm were interactive in Korea and Brazil.

First, the influence that industrial firms in Brazil and Korea did have on their respective states and the policies they produced must be addressed. As argued above, this influence was indirect in both cases but perhaps more direct in Brazil than it was in Korea. Comparing the nature of the state-firm relationship in Korea ("Korea, Inc.") with the nature of the state-firm relationship in Brazil ("triple alliance") should serve to define the major similarities and subtle differences of these pacts between the state and producers in the reader's mind. Jones and Sakong describe "Korea, Inc." well: "If the corporate analogy were applied to Korea, it would be far closer to the truth to say that the President chairs a policy board composed of ministers, with businessmen as operationally independent managers or production units. The success of the conglomerate depends on

[21]Lall, "Bell Toll," 649.

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the performance of the managers whose counsel is valued . . . , but they are emphatically not members of the board. . . . The *government's* wishes are tantamount to commands, and *business* does not dare take them lightly."[22] Likewise, Jenkins compares and contrasts Brazil to the East Asian model.

> The Latin American bureaucratic authoritarian regimes may have aspired to the type of state autonomy found in East Asia but they came to power in conditions in which many existing groups already exercised considerable influence over the state. . . . Within Latin America, the Brazilian state, particularly under the military . . . Brazil was closer to the 'East Asian model' than either Mexico or Argentina. . . . However, the . . . model of development in Brazil in this period was based on a "triple alliance" between multinational, state and local capital. . . . Such observations serve to reinforce the argument that relative autonomy of the state is the crucial factor in explaining rapid industrial development in the Newly Industrializing Countries.[23]

The type of firm has an impact on the state's autonomy and ability to intervene. The Brazilian state was not as autonomous as the Korean because the Brazilian state competed with an alternative source of power, the multinational. The multinational was an alternative power source because it could simply leave the country if state intervention too greatly conflicted with its interests. Moreover, this alternative source of power was able to influence the state in critical ways which did not maximize national development. As suggested above, local capital did not represent an independent power source. In Korea, local firms allied themselves to the state in their mutual interest in accumulation, but they could not pretend to have the type of power to contradict the state's wishes, at least in the early stages of development, that foreign capital had in Brazil. Korean local capital was tied to Korean soil and to the wishes of the Korean state in a way that Brazilian foreign capital was not. Perhaps a good way to illustrate the difference between Korean state and industry, on the one hand, and the Brazilian state and industry, on the other, is that in the former relationship the state commanded much more discipline than in the latter. "*Where Korea differs from most other late developing countries is in the discipline its state exercises over private firms.* . . . Discipline may be thought of as comprising two

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[22]Jones and Sakong, Government, 67, 68, 69.

[23]Jenkins, "Comparison," 203, 225.

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interrelated dimensions: penalizing poor performers; and rewarding only good ones."[24] Rewarding firms with good performance in exports, new product introduction, or R&D served to intensify the degree of oligopolization. The Korean state rewarded good performers with subsidized loans and further licenses to expand. However, the Korean state penalized blatantly poor performers by refusing them subsidized loans, redistributing their industries to more deserving firms, or refusing to bail them out of bankruptcy.

In Korea, the dominant firm type has always been local capital and such capital was always in the minds of the political elite as it formulated developmental strategy. In the 1950s, huge amounts of aid were channelled to light industry generally and were used to select members of the industrial elite, some of whom would become leaders of the Korean conglomerates (the *chaebol*).[25] Although the Brazilian industrial structure may have changed more rapidly than Korea's the rates of industrial transformation were higher in Korea than Brazil.

The alliance structure after the military coup of 1961 remained basically the same between the Rhee and the Park regimes but, between these two presidential administrations, the power of firms *vis a vis* the state shifted decidedly in favor of the latter. After a perfunctory chilling of relations between the state and these industries (many of the wealthiest business leaders were charged with corruption and were awaiting sentencing), the Park regime reestablished warm relations with this group. "At the time of the military coup, inflation was down momentarily due to a strong stabilization package adopted in 1957, but GNP was stagnant. The military regime divided its attention to minister to two influential groups: cotton textile firms . . . demanding relief from excess capacity; and the progressive "millionaires," or chaebol, in disfavor with the public and the press for having

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[24]Amsden, Giant, 14, 15.

[25]Ibid., 40, 41. Amsden uses a United Nations study to substantiate her assertion that light and heavy industry grew at a phenomenal rate in Korea. In this UN study, Korea not only was ahead of the pack, but it was way ahead. Korean annual percent change in heavy and light manufacturing output were estimated at 20% and 18%, respectively. Yugoslavia and West Berlin were its closest competitors. In heavy and light manufacturing, Yugoslavia showed 16% and 12% change, respectively, while West Berlin showed around 18% and 11%. All other countries (including Brazil with around 14% change in heavy industry and 3% change in light) fell in a tight configuration behind Yugoslavia and West Berlin on the high side and the US on the low side (with -1% change in heavy and light manufacturing). Ceylon is the single exception on the low side with -1% and -8% change in heavy and light industry, respectively. See United Nations, Patterns of Industrial Growth, 1938-1958 (New York: UN, Department of Economic and Social Affairs, 1960).

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accumulated illicit wealth. Out of ministrations to influential groups . . . came Korea's accumulation model."[26]

The state gave the cotton textile firms the relief they needed, albeit by an avenue they were reticent to take. Through a combination of subsidy and coercion, the state directed trade policy which pushed light manufacturers to export intensively. If trade policies were created with traditional firms in mind, investment policies were promulgated with the *chaebol* in mind. The *chaebol*, again, through a combination of subsidy and coercion, were pushed to enter new industries and acquire new technologies. Such policy, though complementary, is easily periodized: trade policy directed toward traditional firms was most heavily stressed in the 1960s, while investment policies directed toward the *chaebol* were most widely stressed during the 1970s.

In Brazil from the 1950s to the early 1970s, the dominant industrial firm type was the foreign firm. The dominant type of industrial policy was secondary ISI. Baer explains the relationship in this country between the economic policy and the dominant firm type, the multinational, at that time. In this context, Baer clearly outlines why the state-foreign firm alliance in Brazil was such that an export-oriented path that Korea took was not an option. "ISI depended on foreign investments, and a major incentive to foreign capital was the large protected domestic market. Had the Brazilian government conditioned the establishment of foreign-owned firms on the massive exportation of Brazilian-produced goods, the multinationals might have refused to move into Brazil. Only after inducing foreign firms to invest massive funds in Brazilian production facilities did the government have the power to pressure them into exporting."[27] Granted, the state alliance with the foreign firms was not the only reason Brazil showed little concern over export expansion at this time. This was because ISI was *supposed* to reduce Brazil's trade dependence. However, trade dependence in Brazil was more transformed than reduced.

In the 1970s, deepening in Brazil promoted state firm acquisition of a massive amount of economic power in short order. Foreign credit was often channelled to state firms and secondary ISI supported them as they came to dominate public utilities,

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[26]Amsden, Giant, 64.

[27]Baer, "Political Determinants," 57-58.

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chemicals, mining, steel, and transport services. Baer contends that the accumulation of economic power by the state was not part of some grand design but arose from a number of ad hoc policies designed to react to "international economic crises; the desire to control the activities of foreign capital . . . ; and the ambition to industrialize rapidly in a backward country."[28] In a way, the last two points are complementary. Since foreign firms were reluctant to enter new industries besides consumer durables and because the state was limited in its power to force such modernization on such firms, the state found itself left with little alternative but to enter these new areas itself. This was especially true since local firms had been relegated to the more technologically backward areas of industry. But local industry, having witnessed its displacement in the 1950s by foreign firms was by no means happy that it was being displaced again by public firms. Fishlow explains why the Brazilian method of modernization was less successful than the Korean method in terms of differing levels of state autonomy in Brazil and the East Asian NICs.

> [The developmental problems Brazil experienced in the early 1980s arose from the persistent] . . . weakness of the Brazilian State. . . . This goes against the conventional wisdom that sees only large doses of public participation in the economy. . . . Yet the Brazilian State neither commanded nor effectively cooperated with the private sector. It had no secure control over real resources. Rather the Brazilian public sector experienced progressive fiscal difficulty over this period diminishing its capacity to guide needed structural adjustment. Credit subsidies and other incentives proliferated, but required an increasing inflationary tax to finance them. Intervention had a diminishing impact; its generalization was a symptom of weakness. State enterprises were a direct instrument but they foundered on the need to increasingly secure their resources from abroad. Increasingly parastatals became the means of obtaining resources for other activities rather than agents for priority real investment. Weakness was self-fulfilling. Larger and larger efforts were necessary to persuade the private sector in the validity of signals emanating from policymakers. As subsidies multiplied in response to private demands, the *relative* inducements required to undertake the relative reallocation became blurred, while deficits increased.
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> The conclusion from the successful Asian development experience in the last two decades is not only that export promotion can yield favorable results in and expanding world economy, but also strong State intervention can be positive. In the Latin American case, the problem has been that intervention has frequently yielded negative outcomes. This is because the intervention often reflects state weakness rather than strength. State priorities can be diluted and deflected by

[28]Ibid., 66.

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> decisions of private interests who are opposed; when pursued, they become more costly by reason of the lack of cooperative support.[29]

The influence of the Brazilian of private sector led to pricing concessions (which worsened inflation directly) and led to outright fiscal gratuities when the state could least afford it (which worsened inflation indirectly). Though the state had its goals for deepening via state firms, this was diluted by societal influence. But the two devices that Korea used to their full potential were state allocated industrial licenses and state allocated credit at differential prices. While Brazil used both these devices, it failed to do so to the measure that Korea did and, more importantly, it failed to exert discipline over economic agents.

This thesis also implies that not only did industrial firms contribute to economic policy which affected economic development, it suggests that the type of industrial firm had a direct impact on industrialization, itself. The different types of firms are local, foreign, and public. The effect of firm types on industrialization is predicated on the different type of logic each type of firm uses. Evans states that the logic of the multi-nationals (MNCs) means that they "will maximize their profits in terms of a global strategy, not a local one."[30] Bounded rationality, which is an important part of the global strategy, conditions choices "about what products to produce, where to produce them, and how to produce them."[31] The bounded rationality of the MNCs, which originated in the center countries, postulates that profits should be kept close to home. Thus, the MNCs may be hesitant to come to the peripheral countries, in the first place, to modernize production in the periphery over time or to share technology with local firms in these countries. This globalist strategy conflicts with the nationalist logic of the developmental state and, to a lesser extent, with the logic of the local firm. "The point is that when . . . [MNCs] were wrong, they tended to be wrong in the direction of overestimating the riskiness of investment in the periphery. The classic entrepreneur is just the opposite. . . . Bounded rationality makes the foreign investor a poor candidate for the entrepreneurial role. . . . Multinationals have . . . every motivation to keep the innovative side of their

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[29]Fishlow, "Tale," 110-111.

[30]Evans, Dependent Development, 36.

[31]Ibid.

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businesses as close to home as possible. As long as they are free to make that choice, the industrialization on the periphery will remain partial."[32]

Nevertheless, in Brazil and in other instances of dependent development, there has been a force that has tried to condition the globalist logic of the multinational to be more accommodating toward the dictates of national development. For Evans, this force could not come from local capital which had "no opening for either political domination or economic hegemony. Its position and privileges were always contingent on its ability to make alliances with other elite groups."[33] Instead, the state was the critical institution disciplining the multinationals.

> Regardless of the ambiguities in relation to the national bourgeoisie, the centrality of the state to accumulation on the periphery is incontrovertible. . . . Unless the state can enforce a priority on local capital accumulation and push for local industrialization effectively, there is no effective sponsor for peripheral industrialization. . . .
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> . . . The problem is to redirect the global rationality of the multinational when it conflicts with the necessities of local accumulation. The state must continually coerce or cajole the multinational into undertaking roles that they would otherwise abdicate. The power and the flexibility of the multinationals suggest that making the returns to desired local investments more attractive is the least problematic way of assuring such a response, but this pure incentive method has other costs. It usually means shifting some of the local surplus to the multi-nationals at the expense of either the national bourgeoisie or the state itself. Relying too heavily on coercing the multinationals is also costly. Not only are they likely to withdraw from entrepreneurial ventures, but they are likely to try to mobilize some form of political intervention both internally and externally. *Achieving an effective blend of coercion and incentive* [if MNCs dominate] *is not likely to be easy.* [emphasis mine][34]

However, the Korean situation tends to contradict some of Evan's suppositions about the local sector because the state built up a strong local capital sector. In Korea, economic development could be enhanced because of the stronger harmony of interests between local capital, which looks more favorably toward entrepreneurship and the nationalist logic of development, and the developmentalist state, which employs such logic

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[32] Ibid., 176-177, 36, 37.

[33] Ibid., 39.

[34] Ibid., 43, 44.

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in its policies. The less difference between the parties' logic of the developmental alliance, the greater harmony there will be as these parties work to realize national economic development, itself. In addition, technology, once "learned" by the national firms, is their property and the profits they received from such production stay at home. The comparative research conducted here also suggests that the export push in Korea was facilitated by the dominance of local firms. After all, foreign firms normally enter a country to jump over barriers and cater to the domestic market of the late developing country. Much effort must be expended to reorient this logic.

While Korea may not substantiate Evan's contentions about the weakness of local capital, Korea is certainly, like Brazil, a case where the dominant force behind the conditioning of global rationality of the multinationals came primarily from the state. The relative absence of multinationals enhanced the state's ability to discipline its firms to work within the laws of national development: "There are fewer multinationals in Korea than in almost any other late-industrializing country . . . [which] almost certainly made it easier for the state to discipline private sector firms, not the least of all in the buildup of a domestic science and technology capability."[35] Mardon describes how the Korean state relegated foreign direct investment (FDI) to a minor role to foreign loans and adroitly exploited foreign capital to complement its developmental designs (which included a dominant position of local capital in the economy). The Korean case serves as a contrast to the relative absence of controls on foreign firm penetration in Brazil in the 1950s and thereafter.

> Foreign capital and technological inflows were coordinated with development plans. Projects for which domestic technical knowledge was adequate were closed to foreign penetration, while those for which foreign technical assistance was necessary were designated open to foreign penetration. These plans and the designated"closed" and "open" sectors were strictly adhered to in the implementation of industrial development because the Korean leadership feared that financially strong and technologically advanced foreign firms would undermine the development of domestic firms and the ability of the state to control key economic and political decisions.
>
> The government therefore . . . [guided] foreign capital inflows into a pattern that would enhance the implementation of development plans while it did not hinder the advancement of domestic enterprises. Foreign investment was considered to benefit the Korean national interest only when it produced in a

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[35]Amsden, Giant, 147.

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> manner that complemented official planning. . . . Foreign investment was not considered beneficial when it competed with domestic firms on the Korean market. . . .
>
> . . . [Within the open sectors, all] foreign investments entering Korea must negotiate elaborate investment agreements with the government which attempts to specify conditions under which foreign investment may operate. These conditions may include (1) a joint venture to be formed with a Korean partner, through which the latter will obtain over a period of time, financial and operational control over the enterprise; (2) an agreement as to the levels of capital investment, output and export, the level and the type of technology transfer, the provision of raw materials, and the access to foreign markets that the foreign investor will provide; and (3) an agreement of divestiture of foreign-held equity to the domestic partner at a specified future date. The effectiveness of these strategies varies by sector and by case; it depends on the governments perception of how necessary a particular foreign investor is . . . and on how attractive the Korean market is to the foreign investor.[36]

Another assertion this thesis will make, and this contradicts much of structuralist thought, is that an over-reliance on direct public industrialization will not maximize economic development, nor will it minimize developmental contradictions. Evans particularly applauds the role of state enterprise in the process of peripheral economic development to condition the behavior of multinationals toward national development.[37] However, hindsight and the comparative perspective allow us to question the viability of state enterprises in effectively promoting nationalist development. In recent years, Brazil's massive investments in state industrial enterprises have come under attack. These state enterprises have failed to perform as it was hoped and have suffered severe difficulties in the wake of the second oil crisis. On the other hand, Korea's local private enterprises have rapidly recovered from the second oil crisis and have continued to be the basis for rapid industrialization in this country. It may be, as the example of Korea illustrates, that local private firms under the guidance of a strong state with major leadership commitment to growth is the ideal model to hasten national economic development.

There is one basic reason that local capital is preferable to public capital. As was the case with the hypothesis concerning the ideal foreign-local mixture, the hypothesis concerning the public-local mixture also demands that the differing types of logic used by

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[36]Mardon, "Control of Foreign Capital," 116, 127.

[37]Evans, Dependent Development, 46-47, 213-227.

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the these different firm types be examined to determine which variant of logic is most conducive to maximize development in cases of late industrialization. The problem with state firms being the dominant locus of industrial investment is that they tend to base their decisions on political factors, not economic ones. To facilitate industrialization in the private sector, state enterprises have often made certain sacrifices private firms would not. They have suffered low returns because they supply basic inputs to the private sector at low costs.[38] In the case of Brazil, public firms took the brunt of external crises such as the second oil crisis.[39] By not concentrating narrowly on their own survival and aggrandize-ment but also on the welfare of private local and foreign firms, state firms sowed the seeds of their own destruction in the severe economic hardship that Brazil faced in the 1980s. The split of focus of the state firm between its own welfare and the welfare of other economic agents (local and foreign firms) may be analogous to the compromised ability of the communist state to maximize development because of its split in focus between the productive sectors and the popular sectors, which will be discussed later. A certain division of labor and narrow focus on goal achievement between the state and the productive sectors is necessary for rapid development.

ECONOMIC POLICY

Having described this paper's position on the magnitude of similarities and differences of institutions (particularly of the state) in Korea and Brazil, it will establish this thesis's position on the relative weights of similarities and differences of economic policy in these countries. There are two major schools of thought on this issue. First, the neoliberal school emphasizes the differences in the trade-linked developmental policies in these countries (or regions). The alternative view, which will be promoted here, contends that, while there were differences in these countries' (or regions') trade-linked developmental strategy, the similarities were stronger than the differences. Gereffi is a good source to understand the subtle differences and major similarities of Latin American

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[38]Baer. Brazilian Economy, 252.

[39]Ibid., 111. Even though public firms were called upon to make the sacrifice of adjustment, it was impossible to localize this sacrifice because of the extreme interconnectedness of economic agents in the Brazilian economy.

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(ie., Brazilian) and East Asian (ie., Korean) trade-linked developmental policy as it unfolded historically.[40] "[T]he contrast often made between Latin America and East Asia representing inward- and outward-development models, respectively, is oversimplified. While this distinction is appropriate for some periods, a historical perspective shows that each of the regional pairs of NICs has pursued *both* inward- and outward-oriented approaches. Rather than being mutually exclusive alternatives, the ISI and EOI development paths in fact are complementary and interactive."[41]

The model represented in figure 2 is a derivative of Gereffi's model except that it substitutes Korea for East Asia and makes some other minor alterations. Still, the original model's periodization of trade-linked development policy of Taiwan does not depart much from that of Korea, and the periodization of such policy in Mexico does not depart from those of Brazil at all. The five phases in his model consist of two "inward-oriented" and three "outward-oriented" periods of development. The commodity export phase typically entails the output of primary or semi-refined products for export primarily destined for the formal imperial or neo-imperial center countries. Primary ISI is the shift in an economy dominated by agrarian exports to one dominated by light manufactures (or consumer non-durables) available primarily to the domestic market. Secondary ISI involves domestic production of "heavier" as well as more capital- and technology-intensive manufactures. The capital- and technology-intensive manufactures includes consumer durables, capital goods, and intermediate goods. Finally, there is primary EOI which tends toward emphasizing labor intensive "light" manufactures as its dynamic sectors, and secondary EOI, which leans toward stressing capital and technology intensive "heavy" manufactures. Consequently, secondary EOI requires a higher level of competence from personnel and a more rigorously developed local industrial base than primary EOI. While primary EOI concentrates efforts on promoting exports of traditional (or light) industries, secondary ISI

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[40]See Gary Gereffi, "Rethinking Development Theory: Insights from East Asia and Latin America," Sociological Forum 4, no. 4 (1989), 505-33: Gary Gereffi, "Paths of Industrialization: An Overview," in Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia, eds. Gary Gereffi and Donald L. Wyman (Princeton: Princeton University Press, 1990); and Gary Gereffi, "International Economics and Domestic Policies," Current Sociology 38, no. 2-3 (1990): 505-33.

[41]Ibid., 237.

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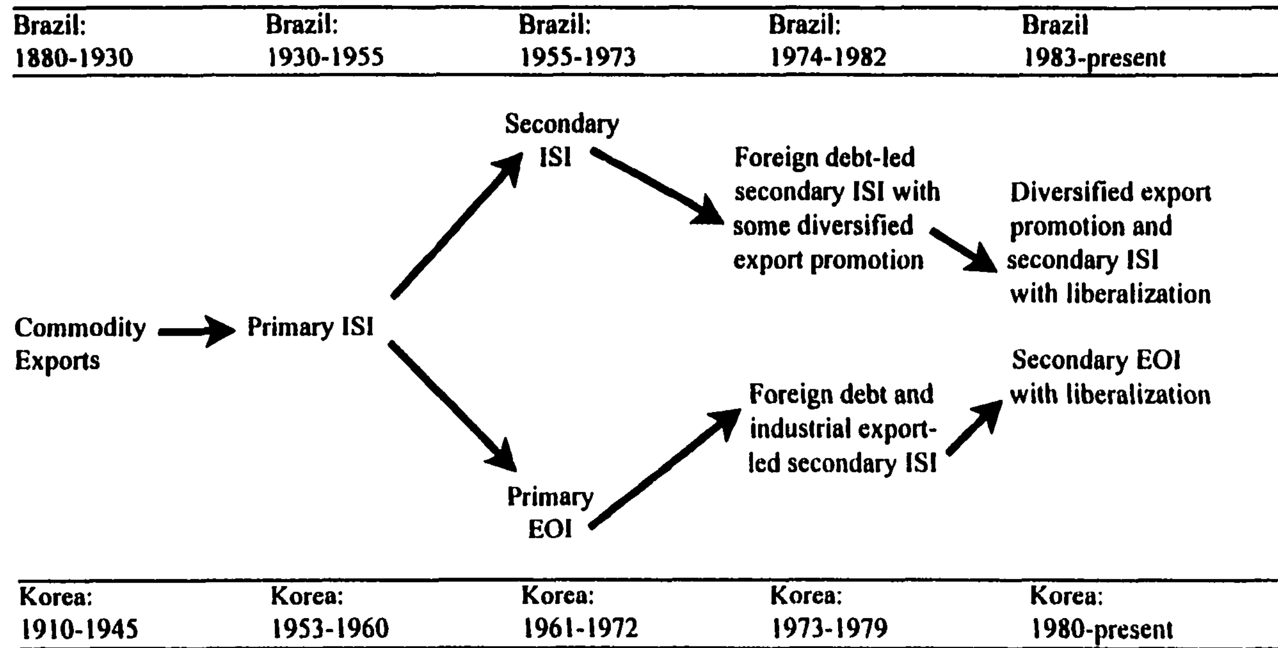
Figure 2. Trade-linked developmental strategies and developmental characteristics: Korea and Brazil



ISI is import substituting industrialization
EOI is export oriented industrialization

Source: Modified version of the figure found in Gary Gereffi, "International Economies and Domestic Policies," Current Sociology 38 (1990), Table 1.

strives to engender exports of modern (or heavy) industries.

According to figure 2, Brazilian and Korean developmental policies are similar, first of all, because they started out the same. Brazil and South Korea went through a similar number of years as well as overlapping periods in which both economies were dominated by commodity exports. In Brazil, this period lasted from 1880 to 1930, while in South Korea it lasted from 1910 to 1945. Also, both states followed up the (or brought on the early) demise of an economy dominated by the export of commodities with the policies of primary ISI. In fact, nearly all the states of late developing nations have created various price distortions which facilitate modernization except in the colonial or commodity export phase as Amsden describes.[42]

Despite the similarities in developmental policy regimes, there are differences in duration and timing of phases of trade orientation and in the fact that these orientations did diverge for a certain period. In regard to the former, Gereffi writes: "Primary ISI began earlier, lasted longer, and was perhaps more populist in Latin America than in East Asia."[43] As can be seen, Korea's period of primary import substitution lasted only about a decade according to this model. Brazil's period of primary import substitution lasted about twice as long. In addition, while Brazil was undergoing secondary ISI during its 1950s' democracy, Korea was undergoing primary ISI during its 1950s' democracy.

More interesting than the subtle differences in the duration of the same strategy (primary ISI) that these countries both pursued is the fact that, in 1960s, Korea's developmental path diverged from Brazil's. "The subsequent divergence stems from the way in which each country responded to the basic problems associated with the continuation of primary ISI."[44] The problems, experienced by both countries, included rapidly rising inflation, a problem servicing foreign debt, and balance of payments deficits. Balance of payments deficits and the resultant foreign debt were brought on by high levels of dependence on intermediate and capital goods as well as low levels of manufactured exports. Korea considered the low level of manufactured exports to be the key problem

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[42]Amsden, Giant, 12.

[43]Gereffi, "Domestic Policies," 237.

[44]Ibid.

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and initiated reforms to boost them in the early 1960s and created incentives to modernize industry. In the 1950s, Brazil considered the dependence on imports more critical. Though Brazil attempted to reduce imports of intermediate and capital goods through a round of secondary ISI, this was not its primary objective. The ISI strategy was primarily engaged in developing the consumer durables industry (through the attraction of foreign firms) and only secondarily oriented toward developing the intermediate and capital goods areas. When Brazil experienced more problems with inflation, foreign debt payment, and balance of payments deficits in the 1960s, the solution was to turn away from ISI and adhere to strict orthodoxy from 1964-67. Only in the 1970s, did secondary ISI policies return in force. Though exports were increasingly emphasized in Brazil over this period, they never received the push that policy gave them in Korea.

Even though these countries may have diverged in their policy orientation, they became alike in the long run. Secondary ISI in Brazil also lasted a lot longer than it did in Korea according to this model (over 30 years in Brazil compared to 6 in Korea). While Gereffi's original model only shows this convergence in the final period that began in 1983 and lasted to present, this model has been altered to account for the fact the tendencies toward convergence may have begun in the prior period (in both cases this period started in the 1970s and lasted to the early 1980s). Though both Brazil and Korea showed almost complementary trade-linked developmental strategies in this earlier period of convergence, the same ingredients of their respective strategies were evident in either case. Thus, while Brazil financed its 1970s' deepening strategy with a primary reliance on foreign debt and a secondary reliance on diversified export expansion, Korea financed its 1970s deepening strategy with a combination of foreign debt and a high level of light industrial exports.

After both countries' economies had reeled from the second oil crisis in the late 1970s, they changed their developmental strategies in a way that showed greater similarities between the two countries. Both Korea and Brazil in the 1980s underwent liberalization and expanded manufactured exports. In both cases, this strategy attempted to remedy the balance of payments and debt crisis brought on by the oil crisis and high levels of capital goods imports. The imbalanced external accounts (and consequent reliance on foreign debt) was also partially the result of the stagnation of export growth in

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Korea and the insufficient export growth in Brazil. Korea was somewhat less troubled by repayment of foreign debt for two reasons: (1) Korea's higher level of export earnings made foreign debt easier to repay, and (2) Korea received better terms on its foreign debt. Inflation was also a problem for both countries at this time as well. Bradford provides a good summary of the convergence of trade-linked developmental policies and dates its origins well before Gereffi does. "The Brazilian development story, which is not dissimilar from that of Korea, also relied heavily on the involvement in achieving an export boom that began in 1967 and entailed a major expansion in the export of manufactured goods in the 1970s. . . . The dichotomy between export promotion and import substitution is overdrawn in the descriptions of the experiences of both Brazil and Korea in both the 1970s and in the 1980s."[45]

While this stylized model may well help expose the underlying similarities of Korea and Brazil's developmental trajectories, this model is flawed in that it stereotypifies the developmental trajectories of these countries. In Brazil, a number of important points follow from this. To begin with, primary ISI may have begun much earlier in Brazil than is indicated in this abstraction.[46] An important distinction between primary ISI and secondary ISI in Brazil is that Brazilian primary ISI was "unconscious" whereas secondary ISI was "conscious." Moreover, while the model implies that these periods of ISI were continuous, they were, in fact, often interrupted for significant periods.[47]

On the Korean side, there were a number of important omissions as well. While Korean primary ISI did begin in the early 1950s, this is not to say that (South) Korea (recently separated from the North) had experienced a significant amount of industrialization via Japanese FDI during the colonial period. "The Japanese left behind physical

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[45]Colin I. Bradford, Jr., "East Asian Models: Myths and Lessons," in Development Strategies Reconsidered, eds. John P. Lewis and Valeriana Kallab (New Brunswick: Transaction Books, 1986), 120.

[46]See Flavio Rabelo Versiani, "Industrial Investment in an 'Export' Economy: The Brazilian Experience Before 1914," Journal of Development Economics, no. 7 (1980): 307-329.

[47]Brazilian primary ISI was interrupted between 1948-53. For this, see Fishlow, "Origins," 339-343. Brazilian secondary ISI was interrupted between 1964-67 and possibly between 1976-73. For the initial interruption in secondary ISI, see Albert O. Hirshman, "The Turn to Authoritarianism and a Search for Its Economic Determinants," in The New Authoritarianism in Latin America, ed. David Collier (Princeton: Princeton University Press, 1979), 76. For the second (partial) interruption is secondary ISI see Serra, "Mistaken Premises," 142.

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facilities [in South Korea] constituting one of the largest 'turnkey' projects in history."[48] While aid-financed primary ISI was certainly a conscious process (though perhaps not a completely rational one in economic terms) of aid acquisition and aid allocation, no mention is made of this. Primary EOI was not neatly chopped off at the time secondary ISI was begun (the rate of export growth did not drop until after 1975).

The omissions this model makes for Korea and Brazil separately have implications for them, comparatively. For instance, if Korean primary ISI were more conscious, continuous, and concentrated, would not this imply that the duration of primary ISI might have been shorter than Brazilian primary ISI and Korean growth rate of light industrial output more rapid? Moreover, if Korean secondary ISI were also more concentrated, less equivocal, and less subject to interruption than Brazilian secondary ISI, would this not have implications for the duration of this strategy and the rapidity of industrial modernization? Neither of these considerations were incorporated in this model. Another comparative event that is obscured by this model is the different implications that "convergence" held for Korea and Brazil. After a short, albeit painful, period of recession and rationalization in the early 1980s, Korea experienced a rather pleasant period of development. Meanwhile, Brazil experienced a severe debt crisis resulting in a loss of national autonomy over economic policy and a prolonged recession with hyperinflation. While export revenues went toward servicing the foreign debt, Korean exports continued to promote national development. Stallings warns about failing to recognize the critical differences between East Asian and Brazilian cases.

> Despite the differences in performance, the situation in respect to foreign capital appears similar: Brazil, Mexico, and Korea all have to have followed Taiwan in running current account surpluses, thus ending their need for foreign capital. The apparent similarity, however, is quite deceptive. Korea has indeed embarked on the Taiwanese balance of payments path, but Brazil's and Mexico's lesser reliance on foreign capital is not by choice. Both countries have been forced to run large merchandise surpluses in order to continue at least partial debt service, and the decline in capital inflow has been an important cause of their enormous economic and political problems. . . . [The 1980s] have been basically positive for Taiwan and Korean (which have grown rapidly and begun to escape prior economic dependency relations), while the period has been extremely negative for Brazil and

[48]Jones and Sakong, Government, 30.

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Mexico (which are mired in recession and have witnessed greater foreign intrusion into their domestic affairs than at any time since the 1920s).[49]

To summarize, the similarities and dissimilarities between Brazil and the East Asian model and Korea and the Latin American model must be analyzed. This comparison will focus on how each country has responded to opportunities as well as crises in the global economy in post-1960s' development. Dornbusch and Park emphasize the underlying similarities of Brazilian and Korean economic policy and link such similarities to similar economic success in economic development (discussed in the next section). Though Brazil shares many of the features of the "Latin American" model, it may be more similar to the "East Asian" model than is commonly believed.

> Korea's policies clearly do not represent a laissez-faire approach: intervention . . . is pervasive. Intervention [via import substitution] has also been used in Latin America but with mixed results. . . . except [in] Brazil. Perhaps because of its larger domestic market, Brazil successfully used protection to build up a highly efficient industrial structure. Brazil also avoided external bottlenecks that arise from explicit taxes on exports. . . . The Korean strategy is much the same, with pervasive protection of an infant industry kind going hand in hand with a favorable treatment of the export sector . . ."[50]

While Brazil may appear to share more features of "East Asian" model than other Latin American countries, Korea tends to exhibit many of the traits commonly associated with the "Latin American" model. Like Latin America, Korea accumulated a large foreign debt.[51] It has the same problem that Latin America does with unstable growth rates, growing rapidly in some years and only modestly in others.[52] Korean growth ran concomitant with levels of inflation almost as high as those of Latin America: "Throughout the entire post Korean War period, Korea has experienced rates of inflation that would

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[49]Barbara Stallings, "The Role of Foreign Capital in Economic Development," in Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia, eds. Gary Gereffi and Donald L. Wyman (Princeton: Princeton University Press, 1990), 83-84.

[50]Rudiger Dornbusch and Yung Chul Park, "Korean Growth Policy," Brookings Papers on Economic Activity, no. 2 (1987): 403, 404, 405.

[51]Stephan Haggard and Tun-jen Cheng, "State and Foreign Capital in the East Asian NICs," The Political Economy of the New Asian Industrialism, ed. Fredric C. Deyo (Ithaca: Cornell University Press, 1987), 94.

[52]Byung-Nak Song, The Rise of the Korean Economy (Oxford: Oxford University Press, 1990), 62.

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be considered high by all but Latin American standards."[53] Korea led East Asian countries in high levels of protection of infant industry. In fact, a recent World Bank study found that Korean (as well as Taiwanese and Japanese) levels of price distortion were well above Brazilian (as well Mexican, Venezuelan, Indian, and Pakistanian) levels.[54] While most accounts describe Korean income distribution as very equitable, there is at least one account that states "Korea's rate of aggregate economic concentration and wage inequalities are among the highest in the world" and, assuming this is correct, are thus in a league similar to Latin America's.[55] In both cases, most policies were directed toward redistributing wealth to the industrial sectors. In both, this often meant that wealth was directed away from labor or the consumer class.[56]

Korea's economic policy was not only similar to Brazil's in times of plenty but also in times of famine. There seems to be the broad misconception that Korea performed comparatively better during the 1980s *vis a vis* Brazil because the Korean state imposed

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[53]Mason et al., Economic and Social Modernization, 110.

[54]World Bank, East Asian Miracle, 301. This finding not only runs counter to the World Bank's claims of limited price distortion, it is a bit too revisionist for the claims offered here. It is a strange definition of price distortion, however, which may explain the finding. Suffice it to say that Korean prices are hardly in perfect accordance with the free market.

[55]Amsden, Giant, 16.

[56]Neither Brazil nor Korea has felt it necessary to engage in programs that create equitable distribution, though perhaps Brazil's social welfare system is perhaps a bit more developed than Korea's. It could also be said that Brazilian state has, at times, felt it necessary, either because doing so supports its political goals or because doing so supports its policies of import substitution, to raise the minimum wage. But the Korean state has continually stood in opposition to wage hikes which was the flip side to the military state's strong alliance with business. President Park said, "Before these goals [ie., promotion of the public welfare, freedom from exploitation and fair distribution of income] can be achieved, we must see to it that. . . our poor economic power is greatly strengthened and that the. . . power of productivity is fully utilized." For this see Park Chung Hee, Our Nations Path: Ideology for Social Reconstruction (Seoul: Dong-A, 1962), 224. The Brazilian state in some ways favors the welfare state model of economic redistribution more than the Korean one. This could be used to explain the slower development progress of Brazil in contrast to Korea. However, Brazil's ISI economy depended on the domestic consumption for growth. In any case, the differences in Korean and Brazilian models are of the nuance variety and not of the polar variety. Brazil (at least during the first half of the B-A period) and Korea have followed a policy which hedged against wage hikes and social welfare and instead emphasized the redistribution of wealth to priority sectors of industrial production. The nuances are, however, important to the contention that Korea has done a more efficient job, through its extensive microeconomic interventions, of wealth redistribution to priority industries. Such efficient intervention in B-A Korea has resulted in a superior level of economic development in this country in comparison to B-A Brazil. Brazil and Korea have done a more efficient job at redistributing wealth to priority industries than most communist states which have a more mixed agenda.

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austerity measures while Brazil did not. However, Amsden implies that Korea's economic policies in times of crisis were not so different from those of Latin America's, at least not in terms of its efforts to avoid austerity and liberalization, and, instead, to formulate and implement a developmental plan. Though she suggests that Korea's superior performance, may have been based on its the fact that Korea's pro-growth policy may have had a different emphasis than Latin America's.

> If the Korean economy has outperformed the late learners of Latin America, the reason cannot be said to lie in short-term austerity measures to manage external shock, because the policy response of the Korean government to external shock was not to batten down the hatches. During the twenty-five years after the 1961 coup, the growth of the Korean economy, though spectacular, was regularly interrupted by internal and external shocks. . . . [T]he 1970s were difficult years in which to industrialize. Nevertheless, external shocks did not derail the Korean economy from its fast-growth track. *The government borrowed its way out of balance of payments difficulties and sustained fast growth. . . .*
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> . . . The tact most often taken by the economy after economic downturns was a resurgence of exports and rapidly resumed expansion. . . . [It has also resorted] to fairly unorthodox measures . . . [such as] driving down interest rates, allowing the exchange rate to appreciate after devaluation and not allowing all but a trivial number of leading enterprises to go bankrupt. The Korean government may discipline private firms more than other governments. But it also provides them with staunch support. . . . In all three stabilization exercises [carried out between 1979 and 1984], the Korean government can be described as having accommodated the private sector rather than having been austere, austerity typically being the mood of the of the stabilization exercises recommended by the Bretton Woods institutions. . . .
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> . . . [Within these institutions] liberalization in Korea in the 1980s is rationalized as the medicine for the economic diseases supposedly caused by the government intervention in the 1970s. *Yet the premise of economic disaster is nowhere substantiated. . . . [Most economic indicators . . . imply that just before the second energy crisis, the economy was performing rather well, a Big Push into heavy industry notwithstanding. . . . To the extent that other growth policies favoring heavy state subsidization of new industries have been successful, they have enabled the government to act vigorously within the context of short-term macroeconomic policies to maintain the growth momentum in the face of external* shocks.[57]

Many will see strong similarities in the Brazilian and Korean cases. Brazil's stabilization at the time of the first oil crisis was rather mild. Instead, Brazil, like Korea,

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[57]Amsden, Giant, 93-94, 105.

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opted to undergo a deepening program at this time. Like Korea, it borrowed heavily to pursue its program as well as to escape balance of payments difficulties. The differences between Korea and Brazil were minor ones, but they were the "straws that broke the camel's back." First, the Brazilian state did not provide as helpful an environment to its firms in the early 1980s by supportive exchange rate, interest rate, and bail-out policies. After 1982, Brazil came under the influence of IMF austerity and liberalization policies.

The differential export orientations of Korea and Brazil also contributed to their differential performance in the 1980s. While the Korean state made its Big Push into heavy industry in the 1970s, it continued to push really hard on its firms to increase exports, particularly after an economic crisis. While Brazil made some progress in this area in the 1970s, the state's efforts at export promotion were weak by comparison. The Brazilian state simply did not have the strength to force firms to leave the safer home market for the unknown foreign market under its own volition. Only after the debt crisis brought Brazilian policymakers to their knees and under the control of the IMF did the Brazilian state implement policies that expanded exports dramatically. By this time, the Brazilian state was not able to turn exports into a source of national development and experience positive growth. Export expansion and recession went hand in hand as export receipts went toward paying off Brazil's tremendous foreign debt. State policy in Korea facilitated adjustment of its firms by increasing exports while it encouraged industrial modernization in the 1970s. Meanwhile, state policy in Brazil forestalled adjustment by increasing foreign debt to compensate for balance of payments deficits which resulted from the first oil crisis and the deepening program. Forestalling adjustment haunted Brazilian development after the second oil crisis.

One may ask if the comparative research has shed any light on whether the critical differences in the institutions or the differences in economic policy had a greater impact on the different levels of economic development in Korea and Brazil. While such issues are interrelated, institutional differences are at the root of such developmental differences. "The key to the superior industrial performance of the East Asian NICs does not lie in the general superiority of export-oriented industrialization strategies over import substitution or the market oriented strategies over state intervention as some writers have suggested.

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It is rather the ability of the state to direct the accumulation process in the direction which is required by capitalist development in particular points in time which is crucial."[58]

At first, one is tempted to say that Jenkins puts this a bit too strongly. Brazil's bias against exports *was* related to its ISI strategy that it employed in the 1970s, and this bias was part of the reason it experienced extreme vulnerability to balance of payments pressures and to foreign debt. Moreover, Korea's greater industrial export orientation helped Korea capture rents from world trade to a greater extent than Brazil. However, Jenkins is essentially correct in that the real reason for the problems that arose in the 1980s because of insufficient export performance in the 1970s (and before) was not the fault of the strategy, itself. Instead, it was the fault of a state which was not strong enough to switch its strategy to one that was more export oriented. The fact is Korea's conscious primary ISI in the 1950s served this country quite well as did Brazil's conscious secondary ISI of this time. In the 1950s, primary ISI helped light industry in (South) Korea to recover from its destruction in the Korean War and allowed it to surpass the level of expansion such industry had achieved under the Japanese. Likewise, in the 1950s, secondary ISI catalyzed the heavy, machinery, and chemical industries to expand at a rate that has not been possible either before or since. Korea was able to switch to a more export-oriented strategy when the advantages from trade and the constraints from balance of payments or foreign debt made it advantageous to do so. The Brazilian state had neither the will nor the capacity to independently engage in the extreme intervention or coercion necessary to make such radical gains in the expansion of manufactured exports. Despite these subtle differences in economic policy, major similarities existed in its pro-industrial orientation, emphasis of exports, and the growing convergence of trade-linked developmental strategies. These similarities were largely responsible for similar outcomes of rapid economic development.[59] The broad similarities and subtle differences in the economic development of Korea and Brazil are the topic of the next section.

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[58]Jenkins, "Comparison," 224.

[59]The exception is that Brazil's early 1980s convergence with Korea in terms of greater export orientation ran concomitant with Brazil's economic crisis, while secondary EOI in Korea led to Korea's rapid economic recovery. However, as alluded to above, there are other policy differences that explain this phenomenon.

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ECONOMIC DEVELOPMENT

The statistics are not in question. The real debate lies in their causes. Previously, this thesis has conducted a literature review intended to give some evidence supporting the interpretation that Brazilian and Korean institutions, developmental alliances, and economic policies were not as different as they were alike. Further, this paper contends that such similarities were the causes of higher than average rates of industrialization in these countries *vis a vis* other late developing countries. However, Korea did industrialize faster and with fewer problems than Brazil, particularly in the 1980s. The argument is that Korea's model of development conformed more closely to a nationalist ideal model of development than did Brazil's. Thus, Korea found a faster track to industrial growth and modernization than did Brazil. A cursory view of Brazilian and Korean comparative industrialization and development is given through statistics and market failure analysis.

Growth Rates

Tables 1 and 2 will give a picture of economic development and the process of industrialization in Brazil and Korea during the B-A regimes through GNP, agricultural, and industrial growth. By analyzing the rapidity of industrial growth *vis a vis* agricultural growth. The underlying premise to this assumption is that modern societies go through fundamental changes.[60] There is the agrarian phase where agriculture dominates the economy and its growth rates are high. Eventually, the growth of agriculture will plateau and industry will become the dynamic sector as evidenced by industrial growth rates relatively higher than agriculture. A characteristic of the NICs is that this transformation occurs very rapidly. Since this thesis has called both Korea and Brazil NICs and has contended that Brazil and Korea are similar in economic development, the transition of

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[60]This view derives from the argument that economic development is broken into several stages at least dates back to Walt W. Rostow, The Stages of Economic Growth: A Non-Communist Manifesto (Cambridge: Cambridge University Press, 1960). The stages approach has more recently been used to contend that the U.S. is now entering a post-industrial stage. See Daniel Bell, The Coming of the Post-Industrial Society: A Venture in Social Forecasting (New York: Basic Books, 1973). However, it is probably correct that while an economy can move through different stages in terms of dynamism being transferred to more modern sectors and industrial subsectors, the more traditional sectors and subsectors are important as a continuing platform for growth and should not be surgically removed without damage to the economy. On this, see Stephen S. Cohen and John Zysman, Manufacturing Matters: The Myth of the Post-Industrial Economy (New York: Basic Books, 1987).

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Table 1. Korea's annual average growth of industry, agriculture, and GNP under democracy and bureaucratic-authoritarianism (%)

Democracy	Agriculture	Industry	Total GNP
1954-57	3.3	16.9	5.5
1958-61	4.0	7.4	4.1
1954-61	**3.7**	**12.2**	**4.8**
B-A	Agriculture	Industry	Total GNP
1962-66	5.5	14.8	8.3
1967-71	2.0	20.9	11.4
1972-76	5.8	20.1	11.2
1977-81	-1.0	10.5	5.8
1982-86	4.3	12.4	9.8
1962-86	**3.3**	**15.7**	**9.3**
Democracy	Agriculture	Industry	Total GNP
1987-91	5.8	10.4	9.9

Sources: The statistics for the above table are compiled or computed from the following secondary sources. For the statistics on subperiods between 1954 and 1961, see David C. Cole and Princeton N. Lyman, Korean Development: The Interplay of Politics and Economics (Cambridge: Harvard University Press, 1971), Table A- 3. For the statistics on subperiods between 1962 and 1976, see Jones and Sakong, Government, Table 8. For the statistics on the subperiods between 1977 and 1991, see Il Sakong, Korea in the World Economy (Washington, DC: Institute for International Economics, 1993), Tables A.3 and 2.3.

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Table 2. Brazil's annual average growth of industry, agriculture, and GNP under democracy and bureaucratic-authoritarianism (%)

Democracy	Agriculture	Industry	Total GDP
1950-53	2.9	7.9	5.7
1954-58	4.9	9.5	7.2
1959-63	4.9	8.0	6.5
1950-63	**4.3**	**8.5**	**6.5**
B-A	Agriculture	Industry	Total GDP
1964-66	4.0	4.1	3.6
1967-73	4.6	12.7	11.3
1974-81	4.9	5.4	5.4
1982-84	1.0	-0.1	0.7
1964-84	**4.4**	**6.6**	**6.3**
Democracy	Agriculture	Industry	Total GDP
1985-87	5.1	7.3	6.7

Sources: The statistics for the above table are compiled or computed from the following secondary sources. For statistics on the subperiods between 1950 and 1966, see Tyler, Industrialization in Brazil, Table II-4. The statistical information on the subperiods between 1967 and 1981 comes from Luiz Carlos Bresser Pereira, Development and Crisis in Brazil, 1930-1983 (Boulder: Westview Press, 1984), Table 8.1. Statistics on the subperiods between 1982 and 1987 is found in Werner Baer, "Brazil's Rocky Economic Road to Democracy," in The Political Economy of Brazil, eds., Lawrence S. Graham and Robert H. Wilson. (Austin: University of Texas Press, 1990), Table 4.2. The statistics for the subtotal estimate of the 1964-87 are figured from Tyler, Industrialization in Brazil, Table II-4 and from Baer, "Rocky Economic Road," Table 4.2. Tyler provides the statistics between 1964 and 1967 and Baer provide statistics between 1968 and 1987.

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Brazil and Korea should be documented by high growth rates of GNP and industry and low or declining growth rates of agriculture. Overall, Brazilian and Korean GNP and industrial growth were quite high and, though this is not presented, such growth rates were much higher than the norm for late developing countries. However, one can also see that Korea's growth rates of industry and GNP were higher, particularly in the 1960s and most of the 1970s.

To give the reader a useful orientation of the political economy of Korean (table 1) and Brazilian (table 2) growth of agriculture, industry and GNP, these tables are broken down into major regime periods. A few comments can be made about similarities of Korean and Brazilian economic growth in their respective 1950s democracies. First, Korea's industrial growth was extremely high in this period, particularly before the 1957 annual stabilizations. Brazil's industrial growth was high also, albeit not as high as Korea's. Stabilizations tended to be intermittent in the 1950s in Brazil and may have contributed to these lower industrial growth rates in this decade. Stabilization not only hurt industrialization in and of themselves, they also shook business confidence about the commitment of the state to produce a business friendly market environment. In addition, Korea received copious amounts of industrial aid during this time which made rapid industrial growth possible. Brazil received a substantial but lesser magnitude of aid and public loans, which were not of the magnitude of Korea's but the highest in Latin America. A precondition of the similarity of high growth rates of industrialization in both these countries may have been the large amounts of aid both received. However, because Korea received more aid than Brazil, its industries grew faster. The presence of industrial aid is essential to understanding Korea's high rate of industrial growth and important to understanding Brazil's.

Second, despite Korea's higher industrial growth in comparison to Brazil, Brazil's GNP growth was higher than Korea's. This can be explained by the fact that Korea's economy was more traditional and thus more heavily dominated by agriculture than Brazil's (as is seen in the next sub-section). In both Korea and Brazil, agriculture experienced relatively low growth rates during the democratic period, but because the nature of Korea's economy was none traditional than Brazil's, low growth rates of

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agriculture were a much greater drag on GNP in Korea than they were in Brazil. Finally, agrarian growth was *slightly* higher in Brazil than it was in Korea. This may imply that Brazil, being more of a resource rich country than Korea, was more able to spread out its agricultural growth over a longer span in the post-war period than Korea and consequently, implies that state alliances to the agrarian elite were stronger in Brazil than they were in Korea. On the one hand, Korea's resource poor status meant that this country could basically dismantle the agrarian elite through land reform and then forget about the agrarian sector, turning its attentions to promoting and securing the support of the industrial elite. On the other hand, Brazil's resource rich status meant this country engaged in the dichotomous policy of promoting agriculture and industry simultaneously. The more myopic support of industry by President Rhee in Korea would have had to have contributed to the higher industrial rates of growth in Korea than Brazil. Meanwhile, the dichotomy of sectoral promotion by Brazil presidents of the 1950s was conducive to a continuation of state support for agriculture but was not favorable to the kind of lopsided, "no-holds-barred" promotion of industry that Korea practiced. The result for Brazil was a lower industrial growth rate than Korea's.

Annual average growth of industry, agriculture, and GNP during B-A in Korea and Brazil show some interesting comparative trends. First, though these tables do not clearly indicate this, Brazil and Korea both experienced economic crisis in the early 1960s. Both countries responded with economic orthodoxy, but in Korea there was something more. Korea's economic crisis ended shortly after the military took over because it quickly formulated and implemented nationalist development plans which promoted industrial exports and industrial modernization. Brazil's economic crisis dragged out for three years as Brazil implemented anti-nationalist stabilization plans, and growth did not recover until nationalism crept back into Brazil's policies from 1967-73. Though these crises were similar, Brazil's was both more severe and lengthy than Korea's.

While these countries had experienced similar crises at similar times, they also experienced similar growth periods. Brazilian and Korean GNP and industrial growth were similar in that they were higher than the average in late developing countries. A secondary level of similarity emerges in that Brazil had one period (1967-73) when indus-

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trial and GNP growth were as remarkably high as Korea's during these respective B-A regimes. This was a period when the B-A nature of the Brazilian state became extreme and thus came closer to the Korean model. Moreover, the Brazilian 1967-1973 period (or "miracle years") was a period when the dynamic industries (consumer durables), having built up substantial capacity, expanded production to the limits of their capacity and expanded diversified exports. It was for Brazil an "easy" period of capital accumulation, but substantial industrial modernization also took place. In Korea, the dynamic industry (consumer nondurables) also experienced an "easy" period of capital accumulation as it filled excess productive capacity by increasing exports dramatically and industrial modernization progressed rapidly in this country as well. However, considering the whole B-A period, growth rates can be contrasted by the fact that Korea's industrial and GNP growth was extremely high while Brazil's growth of these indicators was only moderately high.

Though growth declined in both countries during the "painful" industrial modernizing phases, which both countries began in the early 1970s, industrial growth remained brisk, nonetheless, in both countries, particularly Korea. Common motivations for the deepening phase were concerns about balance of payments sparked by the 1973 oil crisis, a wish to continue growth in spite of said crisis, and a recognition in both states that a broadening of the industrial structure would promote enhanced development.

In 1979, the oil crisis struck and both economies experienced difficulties. Again, while Brazil responded with strict IMF-imposed austerity and a belated export push, Korea responded with a mixture of nationalism (reorganization of industries and export push) and conservatism (stabilization and liberalization). Again, Brazil's difficulty was more severe and prolonged than Korea's. However, the policy response was not the only factor that made the Korean crisis less burdensome than the Brazilian. Korea's legacy of exportled growth made the balance of payments problem and its substantial foreign debt easier to rectify than Brazil's legacy of domestic market-led growth (with some export expansion) could. In addition, Korea secured its foreign debt on better terms than did Brazil, which also made it easier to service. While Brazil experienced severe hardship in the 1980s, history suggests that a national development plan will creep back into Brazilian policy and the economy will eventually recover as is confirmed by Brazil's 1990's success.

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Change in the Sectoral Structure

Growth rates of industry, agriculture, and GNP are not the only ways to indicate industrialization. If the sectoral shares of the economy can be mapped at periodic intervals, one can determine which sector is becoming more dominant and which sector is becoming less dominant (see tables 3 and 4). One would expect an agrarian society to have a low share of industry to GNP and a high share of agriculture to GNP. Conversely, one would expect an industrial society to have a lower weight of industry *vis a vis* agriculture. As an agrarian, late developing country progresses, one would expect industrial shares of GNP to increase and shares of agriculture to decrease. The weight of services is of secondary importance since services can grow off the incomes of agriculture or industry. Basically, the definition of a newly industrializing country would include a changing set of sectoral relationships whereby the share of industry in the GDP increases relative to the share of agriculture in the GDP. Thus, if Brazil and Korea can be considered rapidly industrializing late developers, one would expect these characteristics to be exhibited. Such trends are indeed evident in the cases of Korea and Brazil.

The growth of manufacturing and the decline of agriculture was more dramatic in Korea. In Korea, agriculture dropped over eight percentage points from over 48% of GNP to just under 40% of GNP. The percentage point drop in agriculture was only half as dramatic in Brazil, which fell from 26.7% of GNP to 22.5%, as was the rise of industry from 23.5% to around 25%. Conversely, there was a much more rapid increase in the structural importance of industry in the case of Korea than there was in the case of Brazil during the democratic period. In Brazil, the weight of industry increased a mere 1.7 percentage points, from 23.5% of GNP in 1950 to 25.2% in 1960. However, in Korea the shares of industry increased almost 10 percentage points to rise from 8.8% of GNP in 1950 to 18.6% in 1960. Korea in 1953 had a much more backward sectoral structure than Brazil in 1950. Since Korea started from so far behind Brazil, it still had not achieved as great a percentage of industry in sectoral structure as Brazil had. Nevertheless, the gap between the structural weight of industry in Brazil and the structural weight of industry in Korea closed considerably during their respective democratic periods.

The growth of industry in Korea probably reflects positive influence of the aid

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Table 3. Sectoral structure in Korea under democracy and bureaucratic-authoritarianism (%)

Democracy	Agriculture	Industry	Services	Total GNP
1953	48.2	8.8	43.0	100.0
1957	44.1	13.2	42.7	100.0
1960	39.9	18.6	41.5	100.0
B-A	Agriculture	Industry	Services	Total GNP
1965	41.0	24.1	34.9	100.0
1970	31.1	28.4	40.5	100.0
1975	27.8	33.1	39.1	100.0
1980	14.6	41.4	44.0	100.0
1987	10.8	43.2	46.0	100.0

Sources: For the years 1953 and 1957, see Cole and Lyman, Korean Development, Table A-2. For all other years, see Song, Rise, Table 7.4.

Table 4. Sectoral structure in Brazil under democracy and bureaucratic-authoritarianism (%)

Democracy	Agriculture	Industry	Services	Total GNP
1950	26.7	23.5	49.8	100.0
1955	25.1	24.4	50.5	100.0
1960	22.5	25.2	52.3	100.0
B-A	Agriculture	Industry	Services	Total GNP
1965	22.3	24.4	53.3	100.0
1970	11.5	35.9	52.6	100.0
1975	11.3	37.4	51.3	100.0
1980	10.0	38.1	51.9	100.0
1985	9.8	34.4	56.7	100.0

Sources: The statistics for selected years between 1960 and 1965 are from William G. Tyler, Industrialization in Brazil, Table II-3. The statistics for selected years between 1970-85 are from Baer, Brazilian Economy, Table 6.11.

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which was channeled to it and the supportive environment the Rhee regime provided to industry through primary ISI. The decline of agriculture in Korea probably reflects food aid which undercut domestic production and a series of bad harvests. Land redistribution in Korea also probably contributed by upsetting traditional organizations of extraction and traditional linkages between the agrarian elite and the state. The political incentives are nearly always to build alliances with the groups which can amass economic concentration. Since the landlords were disenfranchised and there was small political incentive to favor the peasants where wealth was not concentrated, the state turned its attentions to industry.

The more resilient relative weights of industry and agriculture in Brazil probably reflected the more persistent influence of the agrarian elite as well as the less supportive aid environment in Brazil. Indeed, Brazil could not afford to give all its support to the industrial sector since agrarian exports helped balance the international payments and helped finance industrial imports. Thus, even under ISI policies intended to promote industrial hegemony, agrarian interests could not afford to be entirely slighted because of agriculture's contribution to this process. It may have been in agriculture's interest to maintain or increase its share in GNP, and thus it probably lobbied against policies that would dramatically promote rising shares of industry vis a vis agriculture. A caveat to this is that many of the agrarian elite were also industrialists as well. One would expect them to support pro-industrial and pro-agrarian policy in Brazil. The competition and coordination of interests of these sectors worked to promote a more stable distribution of industry and agriculture in the economy.

As noted earlier, an economic crisis preceded the transition from democracy to military rule in both countries. It was noted that this crisis was more prolonged and pronounced in Brazil than it was in Korea. This is suggested by tables 3 and 4. Between 1957 and 1960 (when Rhee stepped down), industry gained from 13.2% of GNP to 18.6% of GNP. But in Brazil between 1960 and 1965 (a year after the military coup), the industrial recession had caused Brazil to de-industrialize as industry lost sectorial weight, falling from 25.2% of GNP to 24.4% of GNP. Services picked up the difference.

By 1965, both countries held around 24% of GNP in industry. Between 1965 and 1975 (Brazil's "miracle" years), Brazil gained shares of industry in GNP more rapidly than

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Korea. This resulted from the rapid decline in the value of Brazilian agriculture in comparison to industry. This, in turn, was related to the drastic diversification of exports resulting in the reduction of economic importance of Brazil's main cash crop, coffee. Between 1965 and 1974, coffee fell from 42% of the value of total exports to 12.6% of total exports; and the value of manufactured exports to total exports, in the same period, increased from 7.2% to 27.7%.[61] Korea, starting out as a very agricultural country after the second world war, had about twice the weight of agriculture in the economy in 1965. Though Korea lost more percentage points in agriculture than did Brazil, it would take Korea more time to modernize its sectorial structure since it had only begun its industrial drive at the end of the Second World War and Brazil had begun its industrial drive (with a lot of stops in between) around the First World War. By 1980, the sectoral shares seem rather similar in sectorial weights. In both countries, industry and the state had a much stronger alliance than agriculture and the state did. This is implied by the rapidly increasing shares of industry and the rapidly falling shares of agriculture.

However, in the wake of the second oil crisis, a strange thing happened. Brazil again diverged from its pattern of increasing the share of industry in the economy and decreasing the share of agriculture in the economy. De-industrialization accompanied the 1980s debt crisis in Brazil as it had done in its 1960s debt crisis. While there may have been a convergence in economic policy in Brazil and Korea in the wake of the second oil crisis, as Gereffi suggests, a divergence in rates of industrialization occurred. The service sectors in both countries expanded in both countries in the wake of the second oil crisis.

Finally, the difference is that the service sector is also an area of interest. Services did not grow structurally in Korea as they did in Brazil. This may indicate that industrial reconstruction in Korea through aid-primed ISI was occurring so rapidly that the service sector could not keep up. Moreover, Rhee, with more interest in political goals than in economic growth, was not as interested in eliminating bottlenecks as was the case in Brazil. Still, it is surprising that the service sector did not at least hold its own structurally since infrastructural damage in the aftermath of the Korean War was so great and the rebuilding of the damaged infrastructure was bound to have caused some real growth of

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[61] Baer, Brazilian Economy, 84.

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that sector. The probable explanation is that industrialization was progressing so rapidly in Korea that it overwhelmed agriculture and services. Moreover, services continued to be a smaller share of the GNP in Korea than they were in Brazil, even through these countries authoritarian years.[62] Part of this is the fact that Korea's welfare system was less developed than Brazil's, but such figures could possibly also reflect the larger role of public industry in the economy in Brazil in comparison to Korea. The main point, however, is that both Korea and Brazil made rapid gains in industrialization with a comcomittant reduction in the traditional sector. Korea's structural transformation was more rapid than Brazil's.

Change in the Structure of Manufacturing

To get a sense about the modernization within industry, the structure of the output of the manufacturing sectors will be described. A simple way to describe the state of modernization of any given country is to group these manufacturing sectors under light or heavy industry. Light industrial sectors are those that tend to dominate in the initial stages of industrialization. Light industries are often referred to as "traditional" because they use standard technologies, have low start-up costs, and are labor intensive. Heavy industries are sometimes called "modern" because they use advanced technologies, have high start-up costs, and are capital intensive. Thus, Korea and Brazil would be expected to have light industry dominate at the early industrial stages, while heavy industry would be expected to grow structurally *vis-a-vis* light. Furthermore, the share of heavy industry would be expected to eventually overtake the share of light as the dominant industry, given the proper amount of time. Eventually, if the development process continues uninterrupted, it will eventually reach fruition and the semiperipheral nations (such as Brazil and Korea) will develop industrial structures similar to the developed nations.

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[62]Many authors claim that Rhee's primary interest was not in the economy but was concerned primarily with political interests. While this may have very well been true, part of his political interest was to secure alliances in society which would support his continued rule. Industry represented an important support group in this regard. Another point is that comparative neglect of the service sector is a trait which was carried over into the Park regime. See Song, Rise, 59. For Brazil's attempts to and successes at eliminating bottlenecks in the democratic period, see Baer, Brazilian Economy, 62-70. As Baer notes, such policies created bottlenecks in its wake. See ibid. 70-73.

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As tables 5 and 6 indicate, the change in manufacturing structure was dramatically different in Korea and Brazil. In the early 1950s, the Korean industrial structure was made up roughly of 80% light industry and 20% heavy industry in 1953.[63] Brazil was a bit more advanced at this juncture, having 73% of manufacturing in light industries and 27% in heavy industries. The 1950s concluded with Brazilian heavy industry gaining 15.6 percentage points so that heavy industry accounted for 42.5% of the manufacturing structure, while Korean heavy industry had gained a mere 2.7 percentage points so that heavy industry made up only 22.7% of total industry. What explains Brazil's surge in industrial modernization in the 1950s at a time when Korea's industrial modernization progressed slowly forward at best?

The answers are fairly straightforward. In the 1950s, copious amounts of US aid were flowing into Korea. The aid virtually subsidized the import substitution carried out in Korea at this time. Most of the aid dole was earmarked for light industries, not vertical integration. Primary ISI was geared to building up light manufacturing firms, not heavy ones. Finally, political concerns not economic ones dominated the Rhee regime. The Rhee regime politically benefitted from erecting trade barriers and distributing aid to light industrial firms. If Park's "Big Push" into heavy industry is any indication, state coercion of industry to undertake the daunting task of entering new industry was hardly a way to gain political popularity. This is why Park "hardened" the state in the early 1970s. Rhee lacked the incentive to modernize industry, not to mention the resources.

With some exceptions, Brazil's political economy was markedly different from Korea's. Though smaller than the Korean aid dole, Brazil's portion of international aid

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[63]Because the data for Korea in 1953 is not strictly comparable to other years in this table, the numbers represented in parentheses are taken to be crudely more accurate and, consequently, will be the ones used. The original figures are not comparable because the paper and leather industries (elsewhere considered light industries) are included under the chemical industry (which is considered a heavy industry). The way this category is figured makes the proportion of light to heavy industry smaller than would otherwise be the case. The following method is used to tabulate a crudely more comparable figure (represented in parentheses). Taking the chemical industry of 1955 from the distorted figure for 1953, there is a difference of 4.1 percentage points. Subtracting this from heavy industries, a product of 20% results, and adding this to light industries, a product of 80% emerges. However, if the doctored figure for 1953 is more comparable, this means that only a small decrease in the structural importance of light industry is evident between 1953 add 1960. The project then is to explain this minuscule decrease in light industry from 1953 to 1955 and the small decrease in light industry from 1955 to 1960, since these movements are quite small when compared to the large decreases of light industry from 1960 onward.

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Table 5. Sectoral structure of manufacturing in Korea under democracy and bureaucratic-authoritarianism (%)

	Democracy			Bureaucratic-authoritarianism				
	1953	1955	1960	1965	1970	1975	1980	1986
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Light industry	**75.9 (80.0)**	**79.6**	**77.3**	**70.9**	**66.5**	**58.0**	**50.0**	**42.2**
Food, beverages, & tobacco	26.9	26.4	36.5	26.1	29.3	23.1	20.2	15.3
Leather & textiles	34.9 (39.0)	35.4	25.2	28.3	20.8	20.9	17.7	15.1
Wood prod.	4.5	6.7	3.4	3.2	3.3	2.1	1.5	1.2
Printing/ publishing & paper prod.	3.3	5.9	5.8	7.6	5.1	4.4	3.7	4.1
Nonmetallic minerals	4.1	3.1	4.9	4.4	4.8	4.7	5.0	4.3
Other	2.2	2.1	1.5	1.3	3.2	2.8	1.9	2.2
Heavy industry	**24.1 (20.0)**	**20.4**	**22.7**	**29.1**	**33.5**	**42.0**	**50.0**	**57.8**
Chem.	14.6 (10.5)	10.5	9.7	13.9	18.1	19.8	23.1	20.7
Basic metals	2.2	2.4	2.7	3.9	1.0	2.9	6.4	7.5
Transport equipment & machinery	7.3	7.5	10.3	11.3	14.4	19.3	20.5	29.6

Sources: The statistics for the above table are computed from the following primary or secondary sources. For 1953, see Kwang Suk Kim and Michael Roemer, Growth and Structural Transformation, Studies in the Modernization of the Republic of Korea: 1945-1975 (Cambridge, MA: Harvard University Press for Council on East Asian Studies, 1980), Table 21. The "chemicals" category for 1953 is inordinately large because it contains paper and leather products. This means the category "printing/publishing & paper" will not include paper and the "leather, textile & apparel" category will not contain leather for this year. This distorts the general categories of "light" and "heavy" manufactures for this year. For 1955, see United Nations, Patterns of Industrial Growth, 1938-1958 (New York: UN, Department of Economic and Social Affairs, 1960), 488. For 1960-86, see Song, Rise, Table 7.3.

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Table 6. Sectoral structure of manufacturing in Brazil under democracy and bureaucratic-authoritarianism (%)

	Democracy				Bureaucratic-authoritarianism			
	1949	1954	1959	1964	1969	1975	1980	1984
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Light industry	**73.0**	**67.5**	**57.4**	**48.9**	**47.8**	**45.4**	**43.6**	**43.0**
Food, beverages, & tobacco	25.6	21.3	20.8	18.7	17.1	14.1	11.9	15.1
Leather & textiles	25.7	24.0	16.7	15.6	13.5	10.4	11.8	11.5
Nonmetallic minerals	7.4	8.0	6.7	5.0	5.8	6.2	5.8	4.2
Wood prod.	6.1	6.0	5.5	3.8	4.2	4.9	4.5	2.9
Printing/ publishing & paper prod.	6.3	5.8	6.1	4.6	5.4	6.1	5.6	5.6
Other	1.9	2.4	1.6	1.2	1.8	3.7	4.0	3.7
Heavy industry	**27.0**	**32.5**	**42.6**	**51.1**	**52.2**	**54.6**	**56.4**	**57.0**
Chem.	11.4	14.3	15.7	19.5	19.9	19.6	20.9	25.2
Basic metals	9.4	9.9	11.9	11.4	11.5	12.6	11.5	10.7
Transport equipment & machinery	6.2	8.3	15.0	20.2	20.8	22.4	24.0	21.1

Sources: For statistics on selected years between 1949-1964, consult Werner Baer and Isaac Kerstenetzky, "The Brazilian Economy," in Brazil in the Sixties, ed., Riordan Roett (Nashville: Vanderbilt University Press, 1972), Table 12-b. For statistics on the year 1969 see Werner Baer and Annibal V. Villela, "Industrial Growth and Industrialization: Revisions in the Stages of Brazil's Economic Development," Journal of Developing Areas 7, no. 2 (1973): Table 13. For statistics on the years 1975 and 1980, see Baer, Brazilian Economy, Table 15.5. Estimates for 1984 are calculated from IBGE [*Fundacao Instituto Brasileiro de Geografia e Estatistica*], *Estatisticas Historicas do Brasil: series economicas, demograficas e sociais de 1550 a 1988, 2.ed., rev. e atual. v. 3 de Series estatisticas retrospectivas* (Rio de Janeiro: IBGE, 1990.), Table 7.17.

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was large as well. But external finance was not earmarked for light industry as was the case in Korea. Brazil channelled its aid to heavy industries and infrastructure projects. Brazil's policy of secondary ISI was of more importance in explaining the dramatic explosion of the heavy industry sector. Brazil had, heretofore, experienced unconscious primary ISI. It had been tied to the world economy by exporting primary products (chiefly coffee) and importing consumer durables. When Brazil threw up large tariffs and gave generous incentives for the entrance of foreign firms, the response was tremendous by such firms' not wishing to lose Brazil's lucrative market for consumer durables. While there was some resentment from local capital about being displaced from heavy industries or from less technologically advanced firms' not receiving the subsidies given to foreign capital, the objections were muted by a general era of economic expansion. So it was that the difficult task of domestic firms' having to learn advanced technologies and having to enter risky industries was avoided in the Brazilian case. Consequently, the political resistance to Brazilian secondary ISI was not as great as the political resistance to Korean secondary ISI. While Korean secondary ISI required a hardening of the state, Brazilian secondary ISI was conducted under a semi-accommodative democratic one. In summary, the reason for the difference in the industrial structure was that Brazil was instigating secondary ISI by encouraging a large inflow of foreign capital in the modern industries, while Korea, during the 1950s, encouraged the reconstruction and the creation of light industries during this period of primary ISI. Suffice it to say that the political economies of Brazil and Korea were radically different during their respective periods of democratic industrialization, and this led to radically disparate rates of vertical integration of industry.

The economic crisis in Brazil and Korea around the time of the military coups in the early 1960s was not reflected by a regression to a less modem industrial structure in either case (though, as we have seen, a regression was evident in the Brazilian sectoral structure in the early 1960s). Brazil began the 1960s with a share of heavy manufacturing (at 42.6%) almost twice as high as Korea's (at 22.7%). While the Korean democracy was notable for the lack of industrial modernization and the Brazilian democracy was exceptional for the rapid modernization of industry, just the opposite trends were evident in these countries B-A phases. This trend was not so pronounced at the end of the 1960s:

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Brazil had gained around 10 percentage points in heavy industry's industrial share (at 52.2%) to Korea's 11 point gain (at 33.5%). Both countries had experienced a capital accumulation phase at roughly this time, and both had diversified their industrial structure on the coattails of it.

The differences in Brazilian and Korean rates of industrial modernization became pronounced in the 1970s during their deepening phases when both states attempted to manipulate investment toward heavy industry. By the end of this period, Korea had gained 16.5 percentage points in heavy industry's share of total industry (at 50%), while Brazilian deepening had only resulted in an increase of 4.2 points (at 56.4%). Granted, since the share of Brazilian heavy industry had reached a high level, it was bound to plateau at some point, and Korean share of heavy industry, still being relatively small at the beginning of the 1970s, had more room for growth. However, these statistics lead one to believe that Korea was doing something *very right* in terms of promoting industrial modernization, while they lead one to conclude that Brazil's policies of industrial modernization were not nearly as effective. The increase in shares of heavy industry in both countries meant that, by the mid-1980s, these countries' industrial structures had converged to a point to where both were pushing 60% of heavy industry in total industry.

What explains the dramatically differential rates of industrial modernization in Brazil and Korea in the 1970s? This thesis argues that three features loom large in this explanation. First, there was the different types of firms in the dynamic sectors. Foreign firms could have been used to modernize industry. The legacy of foreign firms in Brazil's most modern industries left Brazil in a quandary. Foreign firms were the natural choice with their large size and access to high technology; however, such firms were reluctant to enter such firms in Brazil , and the Brazilian state lacked the capacity to force these firms to make such a move, in any case. In addition, modernization into modern industry by foreign firms was viewed as compromising national security. Though local firms might have been used as a vehicle of modernization, this "first-best" choice was not viable because most local firms were small and low-tech. Consequently, they lacked the necessary characteristics for industrial modernization. Since local firms were not fit for the job of modenization and foreign firms were unwilling to take on the job, the only

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option was to differentiate Brazil's public firms to accomplish goal. Since public firms tend to sacrifice their own profitability for the good of other members of the triple alliance, they probably were not as efficient or growth-oriented as private firms would have been. For these reasons, industrialization progressed slower in Brazil than in Korea.

Considering the productive social forces, Korea had all the advantages. It had no legacy of foreign domination of the dynamic industries. Indeed, local private firms inhabited the dynamic industries. Some of these were large and had already embarked on the tentative steps of industrial modernization. The Korean state had an easier time inducing these large local firms to enter new industries and accomplish national development objectives than Brazil could hope to have with its foreign firms. Korea developed public firms that could carry out gap-filling functions. Such functions were geared toward providing markets for local firm expansion or providing crucial inputs for this purpose. Further, public firms tended to enter the riskiest areas of production to make private local firm expansion more attractive. The state intensively screened foreign firms so that technology transfer to and ownership of industries by local private firms could be maximized. In this way Brazil and Korea were very different.

Second, much difference in development can be explained by the different types of state intervention. Korea intensified authoritarianism to make its intervention more decisive, while Brazil liberalized its authoritarian regime during the respective deepening period of the 1970s. For Brazil, a weaker state meant that subsidies "proliferated instead of priorities" and that coercive strength was lacking to stabilize inflation or to motivate the private sector to cooperate with its developmental plan.[64] For Korea, a stronger state meant that policymaking was insulated and policy implementation could effectively be carried out by command as well as incentive. In addition, Brazil preferred macroeconomic to microeconomic, while Korea displayed the reverse emphasis. Because macroeconomic intervention is less sector specific than microeconomic intervention, Korea was able to ensure that its sectors confirmed to its developmental plan to a greater extent than Brazil. The result, particularly in the 1980s, was that Brazil's economy surged out of control, tempered neither by a coherent plan nor market considerations, while the Korean state

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[64]Fishlow, "Tale," 98, 110-111.

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allocated investments efficiently toward developmental aims.

Finally, the major Brazilian and Korean forms of microeconomic intervention differed substantially. Brazil and Korea both used credit subsidies, but Korea used these more heavily than Brazil. The Korean state used reciprocal subsidies by which performance results were demanded from firms, while Brazil used unidirectional subsidies more frequently. The Brazilian state's major microeconomic device to enhance industrial modernization was through state firm expansion. However, state firms were encumbered by their by their preference for welfare- instead of profit-maximization. Deepening via coherent policy implemented through reciprocal microeconomic subsidies (through the credit system) and directed toward a strong local capital sector seems preferable to direct state production in terms of achieving a more ideal model of accumulation. Korea was better placed ideologically and institutionally to take advantage of this model than Brazil.

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CHAPTER III
KOREA

INDUSTRIALIZATION BEFORE 1950

Japanese Colonialism

Japanese colonialism in Korea formally dates from 1910. At the time of colonial takeover, there were two characteristics of Korean society which bear mentioning. The Korean economy at this time was dominated by agriculture, four-fifths of its population depending on the earth for their livelihood.[1] The period of Japanese colonialism had implications for both the public and private sectors. The authoritarian nature of the Korean state may have arisen from the Draconian police organization and intelligence agencies set up by the colonial Japanese state. These organizations were intensively utilized by the Rhee and Park administrations. The colonial policing organizations established the precedent for the state's being the central force in Korean society and the source of power by which it ruled. During the colonial administration, the one single goal that the bureaucracy and the police force were concerned with was extracting a surplus from the rice paddies.[2] "The bureaucracy, while highly centralized, reached down into every village in the form of a police force and an agricultural extension service."[3]

While the broad outlines of the mission of colonial bureaucracy remained unchanged (ie., maximizing Korea's output to Japan) eventually some industrialization was encouraged via Japanese FDI . The effects of this mission were born out in the private sector to which this thesis now turns. Nowhere were the modernizing effects of Japanese colonialism felt more than in the urban areas.[4] While agricultural growth was hardly

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[1]Edwards. "Industrialization in South Korea." 101.

[2]For a description of Japanese land reforms see Amsden, Giant, 52-54.

[3]Ibid., 34.

[4]This thesis does not contest that Japanese colonialism had an impoverishing influence along with its modernizing influence. However, much of the impoverishing effects of such colonialism were primarily felt in the country by the peasants. This is outside the realm of this thesis which focuses on industrialization. Moreover, the impoverishing effects of colonialism in the urban areas were a ban on Korean entrepreneurship. This ban was overturned after the Second World War when the formerly Japanese-owned industries found their way into the hands of Korean entrepreneurs. While the dearth of Korean management experience had an

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sluggish, industrial output grew much faster than that of agriculture. This was particularly true in the 1930s as Korea became an important base to bolster the Japanese war effort against China.[5] The nature of this industry had a geographical component: the heavier industry was located in the north while the lighter industry (mainly grain processing, textiles, and some machinery) could be found in the south.[6] The end of World War II left Japanese industrial and other properties in the hands of the Korean government, and many of these properties were sold at substantial discount to well-connected members of the private sector. This not only gave the state a major political resource but "gave rise to the first crop of capitalists in post-war South Korea."[7]

The private sector may have also benefitted from the example of export orientation in the colonial economy as the private sector turned (under the direction of the state) to intensive exporting behavior during the 1960's. By the late 1930s, over 50% of Korean output was exported.[8] Admittedly, it is arguable as to whether or not openness to trade was an advantage to a colony. It could be more convincingly argued that Korea did not begin national industrial development until the state was strong enough to start throwing up barriers to trade and heaping up subsidies to foster the growth of its industries.[9]

American Occupation

Like the Japanese legacy, the US profoundly affected Korea's political economy. One of these influences was on the forthcoming Korean state. When the American Military Government (AMG) set up camp in Korea in the wake of the defeat of the

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impoverishing effect, the physical plants that the Japanese left behind after World War II turned out to be an asset to Korean industrialization.

[5]For statistics see Edwards, "Industrialization in South Korea," 103 and Haggard and Cheng, "State and Foreign Capital." 88.

[6]Henceforth, wherever possible, South Korea will be referred to as Korea and North Korea, where mentioned will retain its full nomenclature.

[7]Tun-jen Cheng, "Political Regimes and Development Strategies: South Korea and Taiwan," in Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia, eds. Gary Gereffi and Donald L. Wyman (Princeton: Princeton University Press, 1990), 147.

[8]Edwards, "Industrialization in South Korea," 103

[9]Amsden, Giant, 12.

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Japanese after World War II, it crushed the power bases of the left and catapulted the forces of the right into political power. The politics of the Korean People's Republic were divided along communist and conservative factions. While the urban left was allowed to perish in a bloody uprising in the fall of 1946, the rural guerrilla movement endured until the Korean War.

The AMG also strengthened control by enhancing the power of the conservative alliance which coalesced under the Korean Democratic Party (KDP), Korea's "most conservative political faction."[10] This alliance included the landlords, the bureaucrats, and the police.[11] All three groups needed protection from a society that was hostile to these Japanese collaborationists and thus were proponents of authoritarian government. A strong state was evident in the Rhee and Park regimes, both in terms of societal control and in terms of economic intervention. Also, the KDP was strongly anticommunist. This doctrine had profound implications on Korea's future development since it secured US support as an aid donor during the Rhee regime, and it was used to rationalize heavy government intervention into the economy during the Park regime.

Second, the US also helped increase the state's power by weakening the power of the land-lords via land reform. Through land reform, the US "groped" toward creating a middle class in Korea to pacify the peasants and to compare favorably with communist North Korea. While the landed elite did not lose power completely, their role was transformed as they became statesmen, educators, and entrepreneurs.[12] It was through the evolving Yangban class (or landed elite) that "both industrialization and authoritarian rule [were] facilitated."[13]

Finally, there were a number of other ways that the US affected industrialization at this time. The treaty after the surrender of the Japanese at the end of World War II left the Korean properties of the *zaibatsu* (Japanese conglomerates) in the hands of the Korean

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[10]Ibid., 36.

[11]Cumings, "Northeast Asian Political Economy," 66. For a similar evaluation of the power constellation that assumed power in the wake of the withdrawal of the AMG see Cheng, "Political Regimes," 148.

[12]Amsden, Giant, 37 and Cumings, "Abortive *Abertura*," 12.

[13]Cumings, "Abortive *Abertura*," 12.

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government which would later sell such properties, under pressure from the US, to the private sector at heavily discounted rates. The US also supplied aid to Korea. Finally, the US tried to indoctrinate the political elite in the economic philosophy of economic liberalism (which in turn was buttressed by the aid lever). These economic influences were felt long after the formal withdrawal of the AMG and are covered in greater detail.

INDUSTRIALIZATION DURING THE DEMOCRATIC PERIOD (1948-1960)

The State

Despite the constitutionally democratic government the US delivered to Korea, a "constitution in itself obviously did not ensure democracy."[14] Syngman Rhee was elected in August of 1948. A period of repression followed.[15] The state was strengthened in other ways as well. One way Rhee strengthened the executive was to wrest power from the congress. Though the KDP initially backed Rhee, it grew increasingly irritated with his style of autocratic rule based on police intervention into society. A power struggle emerged. Rhee, in 1952, gained the upper hand in this struggle and forced through a series of constitutional amendments which strengthened executive control.[16]

Rhee also worked to strengthen the executive *vis a vis* society. In 1951, Rhee centralized his control over society by repressing dissent and "subsuming" what remained of the left by creating the quasi-corporatist Liberal Party.[17] Rhee turned to the police, the bureaucracy, and machine politics to manage future elections.

The Korean War changed the developmental alliance by contributing to the of loss the landlords from its ranks.[18] When North Korea drove into the South, they carried out extensive land reform. Even though the Land Reform Bill was passed in 1949-50, it was

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[14]Cheng, "Political Regimes," 149.

[15]Edwards, "Industrialization in South Korea," 105.

[16]Haggard, Pathways, 55.

[17]Cheng, "Political Regimes," 148.

[18]For the history of land reform in Korea, see Cumings, "Abortive *Abertura*," 12; Edwards, "Industrialization in South Korea," 105; and Haggard, Pathways, 55.

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not implemented until 1953. According to this bill, landlords were given industrial bonds in exchange for their land. The effect of this reform was minimal since the bulk of land was sold in anticipation of this reform. Be that as it may, land was redistributed. By eliminating an important source of societal power (the landed elite), land reform made the Rhee regime all the more exclusionary and eliminated a group that in Latin America proved a source of resistance to industrialization. Unlike the gradualist transformation of alliances between state and society in Latin America, Korean land reform abruptly and fundamentally shifted state concerns from the agrarian to the industrial elite.[19]

Aid Maximization Policies

The State-US Alliance

Though the aid maximization strategy and the ISI strategy were highly complementary, this paper will try to desegregate them. In so doing, it will first speak of the aid maximization strategy before discussing the ISI program. Since the lion's share of the aid came from the US, the US-Korean relationship as well as the magnitude of this aid should be described. "It is no exaggeration to say that American aid sustained the Korean . . . [economy] in the fifties, supplanting domestic capital formation and allowing increased imports. . . . Dependence on aid was high."[20] Both Rhee and Park as well as some Korean scholars have complained that US aid did little to promote long-run growth. The copious amounts of aid bestowed upon Korea, in all likelihood, did more good than harm.

Korea did everything it could to maximize aid flows. The aid maximization strategy can be considered both rational and irrational, depending on the way one looks at

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[19]Ibid.

[20]Haggard and Cheng, "State and Capital," 87. Haggard Pathways, 55 calls Korea's access to American aid "key" to this county's import substitution. For statistical support for this contention see Amsden, Giant, 39; Haggard and Cheng, "State and Capital," 87; and Cumings, "Abortive *Abertura*," 5. For an evaluation of Rhee's concerns see Amsden, Giant, 45; for a quotation of Park's estimation see Jones and Sakong, Government, 43. Cumings, "Northeast Asian Political Economy," 62, 63, 68. Cumings suggests that the US policy was aimed at Korea realizing its static comparative advantage as a peripheral nation, while Japan would be allowed to reenter the international economy as the semiperipheral state and the US of course was slated as a center country. Also see Amsden, Giant, 45-48. Amsden bases her criticism of the technical bungling of US aid projects on a report of a subcommittee that visited Korea. For this report, see United States House of Representatives, Relief and Rehabilitation in Korea, 83rd Congress, 2nd Session, House of Representatives 2574 (Washington DC: Government Printing Office, 1954). Also see Krueger, Developmental Role.

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it. According to economic logic, the economic policy was a shambles. However, it can also be considered rational in its attempt to maximize the Rhee regime's control over aid allocation and to maximize aid flows. "[Rhee and his associates] rejected the idea of overall planning and were not interested in trying to define the longer-run objectives or an integrated set of policies. This probably reflected a belief on their part that they could retain more flexibility and achieve better results in negotiations with aid donors by proceeding on an ad hoc basis. . . . To have agreed [to an economic plan] would have exposed the government to serious political risks."[21]

During this period, the rejection of planning led to a relative unimportance of technocratic advice in terms of impacting Korean development. Nevertheless, islands of technocratic expertise were conceived.[22] In 1955, the Ministry of Reconstruction (MOR) was created to coordinate country-wide planning. While the MOR would eventually be disbanded, a branch of the MOR created in 1958, the Economic Development Council (EDC), would be significant in times to come. The Bureau of the Budget in the Ministry of Finance and the Research Department in the Bank of Korea were other centers of developmentalist thinking in this regime.

This thesis will now turn to the conflictual alliance that emerged between the Korean state and the American state at this time. Many conflicts arose between the US government's desire to use aid leverage to influence the political economy of Korea and the desire of the Syngman Rhee to retain independence from the US. "By and large, the Rhee administration staunchly opposed the US policy package. The rancor between the two countries exceeded what could reasonably be expected."[23] Two areas, one general and one specific, entailed an acute amount of dissidence between these parties.

The more *general* policies advocated by the United States suggested a developmental direction seemed to move, not forward, but backward in time. These policy

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[21]David Cole and Young Woo Nam, "The Pattern and Significance of Planning in Korea," in Practical Approaches to Development Planning: Korea's Second Five-Year Plan, ed. Irma Aldeman (Baltimore: Johns Hopkins University Press, 1969), 32.

[22]Haggard, Pathways, 58.

[23]Amsden, Giant, 43.

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recommendations seemed to suggest Korea return to its traditional light industry production and primary product export position in the division of labor. These suggestions were buttressed by aid but were frequently not ultimatums. "U.S. aid ideas adjusted to economic realities. Except in the 'tolerable' level of inflation, U.S. advice was not rigid and certainly not liberal."[24]

To the Americans, the most important policies concerning *specific* issues were control of inflation and a realistic exchange rate.[25] The US wanted a stabilization package. "Corruption apart, Rhee's position was a stabilization package comprising devaluation, a balanced budget, tight money and high interest rates would make growth all but impossible."[26] Indeed, hyper-inflation never materialized. The US was not only successful in pressuring Korea to impose an annual stabilization in 1957, but it was also successful in engineering periodic devaluations: the first was a massive devaluation of 300% in the wake of the Korean War, another devaluation occurred in 1955, and two more maxi-devaluations followed in 1961.[27] Scholars are divided about whether the devaluations had a positive or negative affect on the economy; but, in this case, the stronger argument lies with those claiming devaluation hurt the economy.[28]

In an attempt to make the Koreans more obliging to the requests of the US, the Americans engineered two initiatives which were to facilitate US influence over Korean economic planning. The first was the creation of the Combined Economic Board. The second was the government to government pact of 1948. This pact expected a number of economic reforms to ensure sound fiscal and monetary policies, privatization of Japanese properties, the use of counterpart funds to be determined jointly, and, after 1957, the

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[24]Haggard, Pathways, 61.

[25]Ibid., 57.

[26]Amsden, Giant, 44.

[27]Ibid., 44.

[28]Haggard Pathways, 57, 70, 74 emphasizes the importance of overvaluation and instability of the exchange rate in creating major economic problems during the Rhee regime and cites the devaluation during the Park regime as integral to the success of export promotion. Amsden Giant, 41, 65 cites, however, conservative macroeconomic policies (including devaluation) and aid cuts as responsible for the 1959 depression and calls the 1961 devaluation "disastrous." Devaluation may have stimulated export expansion over the long-term; but, in the short-term, lowering exchange rates stimulated nothing but recession.

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imposition of annual stabilization programs. In 1949 and 1950, reductions in aid were imposed in an effort to ensure compliance.[29] As the 1950s drew to a close, US influence over Korea, which had been purchased through aid, waned a little with diminishing aid flows. Nevertheless, US pull in Korea remained profound.[30]

The State-Business Alliance

The Rhee administration's alliance with business arose from both the distribution of the aid dole and the sale of Japanese properties. First, this paper will analyze the distribution of US aid and how this subsequently built an interest group with which the state formed an alliance. While inconsistent macroeconomic policies may have been more important in maximizing aid flow, microeconomic policies were of greater importance in the allocation of them. These allocative policies included state distribution of aid goods, Japanese properties, import licenses, foreign exchange, and Central Bank credit.[31] While irrational economically, such microeconomic policies "that appeared a complex and confusing patchwork in economic terms can be explained by Rhee's use of the instruments of economic policy . . . to sustain political support."[32] Thus, the business/state relationship in the 1950s was one of interdependence. While the businesses may have been dependent on aid for a good deal of their profits, the Rhee regime was dependent on the private sector for campaign contributions and electoral victories.[33]

The distribution of state operated enterprises (SOEs), Japanese properties, and the banks would become highly beneficial to the private sector. Before the privatization, Jones and Sakong in their chapter, "Heritage Denied," suggest that these properties were quite inefficient: "[the] Japanese left behind physical facilities constituting one of the largest 'turnkey' projects in history. . . . [However, these resources failed to promote substantial

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[29]Haggard, Pathways, 56.

[30]Amsden, Giant, 49.

[31]Ibid., 39.

[32]Haggard, Pathways, 57.

[33]Cheng, "Political Regimes," 151-152.

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growth because] all the infamous characteristics of public enterprise were exacerbated by the chaos and ignorance of the foreign collaborators . . . [and were later] as poorly run under the [Korean] government as under the Americans."[34] Though privatization began in 1954, major reforms in this area did not get underway until 1957. "The divestment of SOEs gave rise to the first crop of capitalists in postwar South Korea . . . [resulting] in a close association between the state and businesses."[35]

Rhee's government managed some major accomplishments. First, it reconstructed a strong light industrial sector with excess capacity which would figure heavily in the drive to increase exports in the 1960s. Second, it helped create the Korean diversified business group (*chaebol*) which benefited from this period of illicit wealth accumulation.[36] Finally, it demonstrated a precedent to the strong state-business relationship that would reemerge.

ISI Policies

Primary ISI industries was necessary because of external constraints consisting of "political partition, a major loss of markets [mainly Japanese], and persistent balance of payment problems."[37] Decolonization permitted the beginning of the "easy" phase of ISI. However, as "the economy became more stabilized (foreign aid arrived, prices dropped, and the balance of payments difficulties eased), ISI became an objective in itself."[38] This objective was closely related to maximizing aid flow and, consequently, "featured low interest rates, an overvalued exchange rate, a budget deficit financed by borrowing from the central bank when taxes and aid generated revenues were insufficient, and Central Bank financing of commercial bank credit to the private sector."[39] Korea's adoption of

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[34]Jones and Sakong , Government, 30, 33, 35.

[35]Cheng, "Political Regimes," 147.

[36]Amsden, Giant, 39, 40.

[37]Haggard, Pathways, 51.

[38]Cheng, "Political Regimes," 145.

[39]Amsden, Giant, 39.

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primary ISI in the wake of the colonial era was hardly unique among LDCs and eroded some of the developmental impediments ubiquitous post-colonial periods elsewhere.[40]

The beneficiaries of ISI were local capitalists, since Korea was not an attractive site for foreign investment at this time and Japanese colonial investment was ultimately turned over to local capitalists. However, at the outset of ISI, domestic industries were too weak to be able to shape the strategy of the state which meant that pro-industrial policies were initiated at the behest of the state.[41] The Rhee regime desired to maintain power by co-opting (and creating) a supportive social group in the local capitalist class.

Despite neoliberal argument that Korean ISI policies during the 1950s produced limit-ed development, this assertion seems to be unfounded. True, GDP growth did only average 4.8% annually from the period 1954 to 1961, but this was due to a sluggish performance of agricultural and service sectors.[42] On average, the industrial sector during this period grew at 12.2% annually. Moreover, it is unfair to judge the Rhee regime's ISI policy as totally at fault since the US-imposed annual stabilization plans (beginning in 1957) accounted for much of the stagnation at the end of the 1950s. The stabilization plans not only slowed inflation but also stalled investment and growth. Finally, ISI provided the industrial platform from which EOI growth would spring. This platform was a strong light manufacturing sector with over-capacity, buttressed by subsidized credit, the aid dole, and protection from imports.[43]

Though economic growth had been rapid through the 1950s, this growth become untenable. In 1960 and 1961, some indicators of economic growth looked gloomy. The low growth rate during the early 1960s is attributable to the downward spiral of aid, the orthodox macroeconomic policies the state converted to under pressure from the US, and the exhaustion of "easy" ISI. Economic decline as well as political factors contributed to

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[40]Ibid., 12, 14.

[41]Cheng, "Political Regimes," 144-145.

[42]Haggard, Pathways, 59.

[43]Amsden, Giant, 41.

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Rhee's downfall. Rhee stepped down amidst the intense riots of April 19, 1960. The political economy of import substitution and aid maximization had come to an end.

Chang Myon presided over the short-lived Second Republic (1960-61). While short, this regime had a lasting impact on Korean economic development. In the political realm, the state sought to reform the bureaucratic structure. The Committee on Government Organizational Reform, which was set up under Myon, "recommended the establishment of an independent ministry of economic planning and an economic research institute both along the lines implemented by Park."[44] In addition, the five year economic plan proposed by the Economic Development Council was approved by the Park cabinet shortly after the junta took control. Most importantly, though, the Chang Myon and the coming Park regime shared a commitment to economic growth. The contrast in political styles can also be drawn between the Rhee and Park regimes. "[The 1961 coup] brought a decade of political incompetence to a close . . . [and] would open a new chapter on both growth and state power."[45]

INDUSTRIALIZATION DURING PARK'S
FIRST PERIOD OF MILITARY RULE (1961-1972)

Origins and Policies of Primary EOI

The State

In the aftermath of the coup of May, 1961, Park rectified the loss of societal order by severe repression.[46] Park went on to institutionalize his executive dominance by a "circuitous" consolidation whereby he won a narrow victory when the elections were held in 1963 in the context of "fragmented and politically tainted opposition . . . [and] charges of election fraud."[47]

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[44]Jones and Sakong, Government, 46.

[45]Amsden, Giant, 38.

[46]Haggard, Pathways, 62.

[47]Ibid., 63. Because the state's presence is so pervasive, Koo calls Korea a "hypermilitarized" society. See Hagen Koo, "The Interplay of State, Social Class, and World System in East Asian Development: The Cases of South Korea and Taiwan," in The Political Economy of the New Asian Industrialism, ed. Fredric C. Deyo (Ithaca: Cornell University Press, 1987), 173.

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This thesis contends that far from free market principles of neoliberals, "Korea is evidence for the proposition that, if and when late industrialization arrives, the driving force behind it is a strong interventionist state."[48] Amsden shows that, even though favorable macroeconomic conditions (low exchange and wage rates) in most cases did not hurt export expansion, there are sound reasons for disbelieving that they were a greater causal factor than state intervention in favor of EOI was.[49]

State strength is cased in terms of executive dominance. There were some continuities in executive dominance from the Rhee regime. First, the legislature under Park was weak and, in any case, controlled by this executive's own party, the Democratic Republican Party (DRP). Second, the transition to "democracy" did not disband instruments of societal control developed earlier. The Korean Central Intelligence Agency (KCIA) was particularly important in this regard. It "combined external and internal intelligence-gathering functions, maintained close links with the ruling party and established a pervasive presence throughout society."[50] The doctrine of anticommunism was the rationale for intervention in all spheres of society, including the economic. In the latter case this was, of course, an oxymoron.[51]

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[48]Amsden, Giant, 55.

[49]A full explanation of such concepts is beyond the scope of this paper. For a full illustration of this argument consult Ibid., 56-63.

[50]Haggard, Pathways, 63.

[51]In fact, the staunch anticommunist stance has been a mask for communist-like interventions into the economy. Cumings, "Abortive *Abertura*," 89, 13 gets at this irony when he writes, "The South Korean state has a far stronger role in the economy than any Latin American state save Cuba." Likewise, Amsden, Giant, 37 writes, "Notwithstanding the military junta's pervasive intervention in the economy, an act that might otherwise be associated with socialistic tendencies, anticommunism has been the dominant political ideology guiding Korean industrialization." White and Wade, Development States, 5, 6 seem to imply that Korea is some mix of capitalism and communism, calling it a "guided market" economy and contend that in some ways "South Korea [is] . . . fundamentally different from the economies of most socialist countries. On the other hand, [it is] . . . also different from most Western economies." Chang, "Industrial Policy," 151 explains a reason for the strong similarity between the Korean state and communist states in terms of state economic intervention when he writes that Park "was also strongly influenced by Communism. His brother was an influential Communist leader, and he himself was sentenced to death (but earned amnesty by publicly denouncing Communism) as one of the leaders of a Communist mutiny within the Korean army in 1949."

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The third reform consisted of changes made in the decision making structure.[52] Probably the most important among these was the reorganization of the Economic Planning Board (EPB) in June, 1961. The executive of the EPB was elevated to the position of Deputy Prime Minister, and its policies were unconstrained by the legislature. Finally, the state elevated the EPB to a powerful position by giving this organization discretion over a number of functions (including planning and information gathering) which had formerly been the purview of disparate organizations. The consolidation resulted in the reduction of "the abilities of other ministries to initiate projects independently."[53] The EPB was not only responsible for long term planning, but it also had a hand in the coercion process by which firms were made to abide by these policies.

Institutional changes, though, were only half of the story. The state, now dominated by the executive branch, also exhibited a regional, if not indigenous, bent toward export-led industrialization. While Haggard, tends to place great emphasis on the influence of the US in charting subsequent Korean economic policy, other scholars such as Chang and Amsden reject this idea and instead emphasize the role of President Park himself and his senior staff.[54] "Under Japanese rule, Korea had been a highly export oriented country. . . . [However,] in the 1960s exports were viewed by the military regime as a . . . [means to achieve] self-sufficiency . . . and the antithesis of self-sufficiency was implicitly defined as continued reliance on US largess."[55] Ironically, Korea did not adopt a policy of increased exports because it saw the wisdom of the neoliberal policies that the US was pushing on Korea. Indeed, it was US economic interference Korea was trying to escape with exports. This is why the Korean model seems to resemble the model of Japanese corporatism more than it reflects any western neoliberal model.

> [The type of state exhibited by Korea] . . . should at least be partly understood as an outcome of the conscious actions taken by the military regime of General Park Chung Hee, which fundamentally shaped the political economy of the country for

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[52]Haggard, Pathways, 64-65.

[53]Ibid., 65.

[54]Ibid., 68-71; Chang, "Industrial Policy," 150-151; and Amsden, Giant, 48-52 and 71-72.

[55]Amsden, Giant, 71-72.

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> decades to come. . . . The political ideas of the top political decision makers of the military regime were fundamentally shaped under the shadow of Japanese corporatism. In terms of their economics the early top decision makers were no fans of the free market, although they had to pay constant lip service to the 'free market economy', given the critical importance of U.S. support for the political survival of the regime. In addition, whatever little economic knowledge the early Korean economic bureaucracy had was not neoclassical economics but the economic theories of Fredric List, Joseph Schumpeter, and Karl Marx, which dominated Japanese academia and policymaking circles in the first half of the twentieth century. The major themes of the Korean economic policy making, for example, the concern for 'social waste' from 'excessive competition', the emphasis on scale economies (and large firms), the obsession with capital accumulation (reflected in the anticonsumption bias), and the desire to develop heavy and chemical industries, make more sense when we understand the intellectual background of the economic bureaucracy. Given such a background, it is more than natural that the political-economic agenda of the Park regime was summarized as 'guided capitalism' (Gyodo Jabon-Jui), where the state plays a guardian role.[56]

The true innovation of Korean policy was that it left so little to the market. "Macroeconomic policy measures were seen as ineffective for the rapid upgrading of industrial structure owing to their uncertain impact on specific sectors and were consequently given a status secondary to industrial policy. . . . [T]herefore, . . . 'priority' sectors . . . [were] given custom designed financial, technical and administrative support."[57] In explaining why the state has distorted macroeconomic prices less than other developing countries, Amsden writes, "The [state's] insistence on performance standards . . . induced a level of productivity, and a willingness to invest on the part of the private sector, that made greater price 'distortions' unnecessary, and the ample price 'distortions' that did exist more effective. . . . [G]rowth has been faster in Korea not because markets have been allowed to operate more freely but because the subsidization process has been qualitatively superior: reciprocal in Korea, unidirectional in most other cases."[58] If state intervention is stifling to entrepreneurship as the neoliberals claim, it is "not clear to us what could more 'stifling', if so many firms have so little freedom to decide what and how much to produce

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[56]Chang, "Industrial Policy," 151.

[57]Ibid. 139.

[58]Amsden, Giant, 145.

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at what price."[59] Korea is not an example of how conservative reforms can create developmentally positive results, but the antithesis of it. Despite the fact that Korea was acutely dependent on the US, "in the mealy matter of economic growth , Korea charted an independent course."[60] This meant that the state placed growth before stability, which was precisely the opposite direction of causality recommended by neoliberal doctrine. This section has described some initiatives the state took by itself that led to EOI policies. However, the state did not take such initiatives without being cognizant of the needs of its industries. This topic is explored below.

The State-Business Alliance

A new alliance structure that arose between the state and the private sector was critical to the EOI transition. The state concentrated its energies on the cotton textile firms and the progressive millionaires (*chaebol*) received redoubled scrutiny and policy ministrations. The policy areas that the state implemented to appease and transform these interest groups were trade policy (formulated primarily with the cotton textile firms in mind) and investment policy (formulated primarily with the *chaebol* in mind). Trade policy directed primarily toward the light local firms would be more pertinent for explaining industrialization during the first phase of Park regime. Investment policy aimed primarily at the local conglomerates was more pertinent for explaining industrialization during the second phase of Park regime.[61]

This thesis will first look at the development of the state-*chaebol* alliance. With the turn to EOI, the military faced a serious dilemma. The military had promised both growth and the elimination of corruption. Initially, the government made good on its clean-up campaign by quickly passing the Special Law for Dealing with Illicit Wealth Accumulation, purging members of the bureaucracy known to be inefficient or corrupt and attacking conspicuous consumption. The government threatened confiscation of shares of the *chaebol*'s industries and prison sentences for its CEO's. Leading businessmen were

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[59]Chang, "Industrial Policy," 138.

[60]Amsden, Giant, 49.

[61]Ibid., 64.

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paraded around the streets wearing sandwich-board signs proclaiming slogans like "I was a parasite on the people."[62] Soon, it dawned on this regime that the *chaebol* were necessary vehicles of growth. Faced with this situation, the military could either forgive these businessmen who were accused of accumulating wealth illicitly and risk political retribution, or it could punish these businessmen and risk economic collapse and the subsequent political fallout. In the end, some businessmen opted to declare bankruptcy and pay their fines. Others offered the concept of a business-government relationship "in which the government would extend financial assistance to industry in line with the priorities of the first plan while excusing the accused from criminal prosecution."[63] The leading CEO's "[i]nstead of becoming victims of martial emasculation. . . were 'allowed to enter center stage' like the Meiji millionaires before them, albeit in a kneeling position."[64] The state avoided political fallout by basing its legitimacy on growth instead of a corruption free political economy. Moreover, by threatening property confiscation of shares and sentences, the state set a profound example for all the private sector in which the private sector was obliged to serve the society by executing the will of the government in an effort to pay interest on a debt that could never quite be repaid.[65] "Out of the remonstrations with the millionaires came the crux of Korea's investment policies. . . [and within days of the coup,] an alliance had been formed between business and government that laid the basis for subsequent industrialization."[66]

Another ingredient of this model, and this is more pertinent for the first phase of industrialization under Park, was the state's alliance with light industry, particularly the cotton textile producers. After the Korean War, textiles received the "lion's share" of international aid which helped to quickly rebuild the industry after the devastation of war. In addition, Korea's textile industry had achieved total import substitution by 1957. The

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[62]Cumings, "Northeast Asian Political Economy," 69.

[63]Haggard, Pathways, 72.

[64]Amsden, Giant, 72.

[65]Chang, "Industrial Policy," 151-152.

[66]Amsden, Giant, 72.

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combination of supports meant that it had been "reconstructed" to the point of excess capacity. It was this excess capacity that the state intended to remedy through increasing this sector's export activity.

To emphasize the fact that the state had much more power *vis a vis* industry, this thesis will contrast the power relationships between these two groups during the Park regime and the Rhee regime. Park's B-A state based its legitimacy on economic growth. Consequently, the state needed the private sector to perform. What may have given the state's will impetus was that much of the interdependence between business and the state which characterized the Rhee regime was gone. Part of the difference had to do with the way elections were financed. Rhee financed his electoral campaigns by kickbacks provided by businesses to which he allocated favors. "The ability to extract rent from *individual* businesses, while at the same time the regime was unable to direct the use of resources by the business *sector*, denoted the structural dependency of political power on the capitalist class."[67] Elections under Park were financed by "an unavoidable political tax levied by a powerful incumbent, rather than a discretionary contribution that imposes obligations on the recipient."[68] In the aftermath of the clean up campaign, the largest local capitalists were dependent on the state for their very existence. Jones and Sakong's analysis of "Korea, Inc" puts the state-business relationship in its proper context. Despite the fact that there is a great deal of harmony of interest between local capital and the state, the power quotient is firmly on the state's side: "The *government's* wishes are tantamount to commands, and *business* does not dare take them lightly."[69]

The government influenced the behavior of its firms through three methods of subsidy and coercion: credit pricing and allocation, reservation of the domestic market for domestic producers, and other export subsidies. During the Rhee regime, the US encouraged desired behavior in Korea by increasing aid flows or pressuring to change undesired behavior by threatening to decrease or actually decreasing (or even terminating) aid flows. The Korean military government *internalized* this dependent relationship. It

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[67]Cheng, "Political Regimes," 151-152.

[68]Jones and Sakong, Government, 68.

[69]Ibid., 67.

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did this by assuming control over the banking system. Instead of the US using aid to exact desired behavior, the state used the banking system to condition desired behavior by allocating scarce credit to the members of a highly leveraged private sector that would carry out its wishes. The nationalization of the banks was the "one exception to the new government's decision to eschew confiscation. . . [and] proved a critical move in the long run, allowing the government to determine where, when, and how much to invest in which industries."[70] Through state control over the banks, it not only controlled the domestic loans but the foreign loans which were channeled through these banks. This meant, with the exception of the curb market, the government controlled access to all credit. Not only did the state use the credit lever to increase levels of export, it also used its influence in loan allocation to keep investment in priority sectors at very high levels, increasing the rate of industrial modernization. Partly conceding to foreign pressures to keep interest rates high, the state raised the domestic interest rates but kept international loans well below the market.[71] With high domestic interest rates and the 1962 amendments to the Foreign Capital Inducement Law, which offered government guarantees to foreign loans, the stage was set for rapid accumulation and efficient utilization of foreign debt. Foreign debt was used to promote rapid modernization and rapid export expansion. "A regime of multiple interest rates arose, therefore, quite similar in principle to the multiple exchange rate regime that export subsidies created. The cost of borrowing at home far exceeded the cost of borrowing abroad. This afforded the government the opportunity to discriminate in favor of particular industries and firms. . . . [T]he real cost of borrowing abroad was negative (in most of the 1960s and 1970s)."[72]

The holy grail of economic success for the neoliberals is the ability of private sector to make its decisions unfettered by the interference of government on the market. But, during the Park regime, the private sector had lost almost all control over such

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[70]Amsden, Giant, 72, 73.

[71]Ibid., 74.

[72]Ibid.

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decisions; instead, such power rested in the hands of the state.[73] Contrary to neoliberal predictions, the heavy state intervention, both macroeconomic and microeconomic, succeeded marvelously in Korea. "Macro-level reforms changed the broad structure of incentives, but at a second, micro-economic level a significant battery of state supports and institutional reforms reduced the risks and transactions costs of shifting into the export business. Exchange rate and trade [macroeconomic] policies established a permissive framework for the realization of comparative advantage, and more targeted [microeconomic] policies pushed firms to exploit it."[74]

Local firms also received protection from international competition over the domestic market which constituted another important subsidy. For textile firms, this meant that the inherently risky business of exporting heavily was compensated for by the reservation of the domestic market for them. The cotton textile industry still depended heavily on the domestic market despite increases in exports.[75] Larger firms were likewise rewarded for expanding into inherently risky "new" investments in this fashion. Local firms have been protected from foreign firms in two ways. First, though foreign firms were allowed to enter Korea, their wares, as stipulated by the state, were to be bound primarily for the external, not the internal, markets. Foreign firms were only allowed to operate in Korea if they could provide a "new" technology to which local firms could not gain access in other ways.[76] "Foreign direct investors have been welcomed to enter the light manufacturing export sector, whereas they have been discouraged from investing in import substituting sectors such as pharmaceuticals and heavy industry."[77] Second, Krueger, who has been at pains to promote Korea's status as a market economy, admits that a most "remarkable aspect of the . . . period since 1953 has been the remarkable

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[73]Chang, "Industrial Policy," 138.

[74]Haggard, Pathways, 67.

[75]For statistics on the large share of wealth textile firms accrued from the domestic market *vis a vis* exports see Amsden, Giant, 67.

[76]Mardon, "Control of Foreign Capital," 116-117.

[77]Ibid., 76.

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stability of the tariff structure."[78] This leads Amsden to conclude that tariffs "together with quantitative import restrictions and government export incentives . . . provided Korean business with abundant government support."[79]

Export incentives were the third way the Korean state encouraged exports. Neo-liberal economists claim that a low unified exchange rate was the most important reform prompting Korea's turn to EOI. Market failure theorists claim that subsidies were more important. By estimating the export effective exchange rate (EEER), one can weigh the effects of exchange rate devaluation *vis a vis* subsidies. There is a strong argument that subsidies were more important in deciding the transition to EOI. It did not "prove possible to increase exports merely by devaluing the won against foreign currencies. The major effect of devaluation was worsening the business climate by the increase in the price of imported inputs, which fueled inflation."[80] After reviewing the data on the real effective exchange rate and movements in export growth in Korea, Amsden finds that "exports and the real effective exchange rate . . . show little relationship to one another."[81]

The 50% devaluation of the won in 1961 hurt the cotton textile industry particularly hard because it imported 99% of its cotton stock. The devaluation meant textile firms paid a higher price for cotton, resulting in imported inflation. "The crisis precipitated by devaluation provoked the military government to intervene with an expansionary economic package, which exacerbated inflation even further."[82] Noting the lack of response of cotton textile firms after the 1961 devaluation, Amsden uses the Frank, Kim and Westphal study to draw conclusions about the causes of the explosion of exports in Korea:

> The volume of exports from Korea barely budged in 1960-62, but bounded in 1963, 1964, and thereafter. . . . What seems to have turned the tide was a sharp rise in subsidies to exporters. . . . The value of manufactured exports was higher

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[78]Krueger, Developmental Role, 140.

[79]Amsden, Giant, 70.

[80]Ibid., 65.

[81]Ibid., 105.

[82]Amsden, Giant, 66. The above statistics cited are cited in this source but originate from the Economic Planning Board, Economic Survey (Seoul: EPB, 1962), 49.

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> in 1963-64 than in all previous years combined since the Japanese defeat in 1945, notwithstanding the increasing overvaluation of the won in 1963-1964 amidst high inflation. The export effective exchange rate rose from 151.5 won per dollar in 1962 to 189.4 in 1963, at the same time as exports rose. The government again devalued the won by 50% in May 1964 (after the United States made the release of food aid contingent on devaluation). Exports increased further, but so did subsidies, as indicated by the gap between the official and the effective exchange rates. The gap between them would have been even wider if subsidies to capital had been included.[83]

In addition to subsidies, Amsden finds that "a strong element of coercion underlay Korea's phenomenal export performance."[84] Coercion was necessary because neither market forces nor incentives alone were sufficient to stimulate exports. In the early 1960s, neither excess capacity nor low wages nor a devalued won was enough incentive to turn textile companies to export. In addition, export incentives were quite generous in the 1950s.[85] Such positive incentives were not sufficient to increase exports because textile firms were very leery about the risky nature of intensive exporting. Consequently, the state had to use large doses of subsidy and coercion to pressure these firms into implementing the state's ambitious export designs. The basis for the claim that a large component in explaining the dramatic increase in the exports by way of state coercion on firms is provided by reference to a survey conducted in 1976 by Rhee and others.[86] In this survey, the response to the question "What has been the effect of export targets fixed for your firm?" is telling. Over half (53%) marked negative effects. The share marking neutral or positive effects were mixed--10% and 37%, respectively. The strong negative reaction to government intrusion implies that state pressure was formidable since export targets, even with business resistance to them, were not only met but often surpassed. This

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[83]Ibid., 66-67.

[84]Ibid., 67.

[85]The literature which does emphasize this point includes Charles R. Frank, Kwang Suk Kim, and Larry E. Westphal, Foreign Trade Regimes and Economic Development: South Korea (New York: National Bureau of Economic Research, 1975); Jones and Sakong, Government, 92; and Amsden, Giant, 65.

[86]See Rhee, Ross-Larson, and Pursell, Competitive Edge.

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implies that the reaction of Korean firms to state demands to increase their exports was more a "reaction to pressure rather than subsidies, let alone the 'right' relative prices."[87]

The State-US Alliance

While this thesis has tended to emphasize state and its alliance to firms as the origin of the EOI, Stephen Haggard and others contend that this transition resulted primarily from US pressures and advice.[88] Part of the reason that the US was able to have so much influence on Korea was not only that it was beginning to take a hard line with its aid policy but that Korea had gotten itself into an awkward economic situation.[89] Also, the dwindling of aid naturally caused the Korean government to search for alternate sources of financing industrialization, including foreign debt and exports. Below, Haggard contends that the shift to EOI was a result of the intricate interactions between US and UN officials, on the one hand, and Korean officials, on the other.

> [T]he United States used the aid weapon to force policy changes both through the short run manipulation of aid to achieve limited goals and through an announced intention to reduce aid commitments over the longer run. . . . [After Park's failed attempt to escape aid dependence and American pressure by seeking foreign credits,] in April 1963, the government negotiated a major stabilization program with the United States, including ceilings on the growth of the money supply, the budget deficit, commercial bank credit expansion, and foreign exchange reserves. The next target was the exchange rate drawing on a study commissioned by AID [Agency for International Development], the United States pressed devaluation despite strenuous objections from Korean business and government officials.
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> The period from 1962 through early 1964 was punctuated by periods of acute tension between the United States and Korea . . . but the government's

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[87]Amsden, Giant, 69. Coercion was also used extensively in motivating firms to modernize into "new" industries as will be shown in the next chapter.

[88]Haggard, Pathways, 68-70.

[89]On the one hand, there are two clear examples of the new tendency of the US to use the threat of aid reductions or actual such reductions: in 1963 the US reduced PL480 aid from what it had been the following year and the director of US AID in 1965 had independently suspended aid disbursements until Korea brought wages and spending into line. The Kennedy administration felt that past aid policy in Korea had been ineffective because of a subcommittee report. See United States House of Representatives, Relief. On the other hand, Korea's economic difficulties included a food shortage, resulting not only from the high food price but a bad harvest. It also included an attempt on the part of Park to try to borrow Korea's way out of its economic troubles. For details see Haggard, Pathways, 69.

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> acceptance of the need for reform allowed a gradual reconciliation with the United States. Acceptance of the need to stabilize also marked the culmination of a gradual turn within the junta away from populist ideas and towards greater conservatism and reliance on technocratic advice. . . . The final move toward an outward-looking strategy evolved during the two years following Park's assumption of the presidency in January 1964. These had their origins in a group of American advisers working closely with mid-level planners in the Economic Planning Board and the Ministry of Commerce and Industry. A Joint US-Korean Economic Cooperation Committee, formed in July 1963, became the locus for the discussion of development strategy, including the promotion of exports the coordination of commercial and investment relations, and fiscal and financial reform.[90]

The Americans believed that the East Asian sphere would be more secure with a US center tied to a Japanese semiperiphery tied to a Taiwanese and Korean periphery.[91] The US foreign policy in Asia as in other regions of the world was one where "[s]ecurity and economic considerations were inexorably mixed."[92] Consequently, the US in the 1960s "placed enormous pressure on Korea to accord diplomatic recognition to Japan. This was viewed, at the time, by businessmen and students in Korea, as suicidal for infant industry and cultural integrity."[93] Opponents to normalization also feared that if Japanese-Korean relations were normalized, the Park regime stood to further consolidate internal control from any resources which would be forthcoming from such a normalization. The normalization proved the most contentious of the policy battles involved with the EOI reforms.[94] Amidst escalating protests, the normalization bill passed the legislature in a late-night maneuver known in Korea as "the snatch." It is so called because the opposition in the Assembly had resigned at the time it became law. This normalization treaty resulted in a flow of Japanese capital which paved the way to the EOI transition: it

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[90]Ibid., 68, 69, 70.

[91]The problem with neoimperialism was that it was too porous to prevent Japan from moving into the center and Taiwan and Korea from moving into the semiperiphery. Cumings, "Northeast Asian Political Economy," 48-51, 62-64.

[92]Ibid., 60.

[93]Amsden, Giant, 64.

[94]Haggard, Pathways, 72.

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included a $300 million grant, $200 million in government to government aid, and $100 million in commercial credits.

US pressure directed toward Korea to increase exports may have had its desired result, but the broader objective of such pressure to get Korea to adopt a neoliberal economic model was hardly accomplished. Also, instead of a Western-based model that emphasized stabilization before growth and low levels of intervention by the state, Korea adopted an economic model very similar to Japan's. This model promoted new heights of state interventionism and autonomy. This is not surprising since state interventionism and autonomy are important ingredients of the Japanese developmental model. To understand the switch to EOI more completely, the tight alliance that was formed between the Park regime and local private capital must be explored. Though the US had an influence in defining Korean economic policy, this influence played second fiddle to the those of Japanese corporatism and state private sector alliances. During the first period of military rule, this alliance accommodated (primarily) a state-led drive to intensive exporting by private local firms and (secondarily) a state-led drive to channel investment toward the more modern areas. During the second period , these emphases reversed themselves..

INDUSTRIALIZATION DURING PARK'S SECOND PERIOD OF MILITARY RULE (1973-79)

The Origins and Policies of Secondary ISI

The State

Much has already been said about the institutional reforms which made the state stronger in the wake of the coup. Some additional institutional reforms preceded the state's drive into heavy and chemical industries, including intense societal repression. "On October 17, 1972, martial law was declared, the constitution suspended, the National Assembly dissolved, the universities closed, and all political parties banned. The Yushin or revitalizing constitution gave Park the power to dissolve the National Assembly and to appoint one-third of its members. Election of the president was made indirect. Executive autonomy reached its peak."[95]

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[95]Haggard, Pathways, 131.

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This repression also included "[an increased] KCIA penetration of society, a clump of 'emergency decrees,' and increasing use of vile tortures against dissidents."[96] It seems that the reforms of this period were also modeled on the Japanese precedent in that the word *Yushin* is pronounced *Ishin* in Japanese, and the latter is used in reference to the post-1868 Meiji reforms. Cumings draws an explicit connection between industrialization and the hardening of the state in the early 1970s.[97]

The reforms enhancing executive autonomy only accentuated a second complex reform which would more directly shape the state-led drive into industrial modernization: this was the HCI Plan, itself. The HCI Plan was announced in President Park's New Year's Address of January 12, 1973. Even before this, though, major undertakings such as the Pohang Iron and Steel Yard (built between 1970-74), the Hyundai Shipyard (built between 1972-73), and a number of petrochemical facilities (built between 1968-74) were well underway. It was not until May, 1973, that the Heavy and Chemical Industries Promotion Council was established. The council was charged not only with custom designing the incentive system for HCI but also with clearing obstacles to industrial modernization and hand picking the firms to participate in the HCI projects. To give this council the necessary credibility and power it would need to fundamentally transform Korea's industrial structure, the Prime Minister received the chairmanship of this council and related ministers became its members.

However, President Park's desire to make the HCI council more powerful and to exert greater control over the council resulted in some institutional reforms. "The formulation and implementation of the heavy-industry plan epitomized the 'strong' state. Planning was highly centralized in the Blue House and the Ministry of Commerce and Industry (MCI), bypassing the more orthodox Economic Planning Board (EPB)."[98] Specifically, this reform established a senior economic secretary to the president as the director of the Plan. A special task force acted as secretariat of the council. "The senior

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[96]Cumings, "Northeast Asian Political Economy," 77.

[97]Cumings, "Abortive *Abertura*," 6-7.

[98]Stephan Haggard and Chung-in Moon, "Institutions and Economic Policy: Theory and a Korean Case Study." World Politics 42, 2 (1990): 217.

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economic secretary and the task force then made up the core organization that was empowered to implement the HCI Plan, under the supreme power of the president."[99]

In addition to the continuities and changes in the institutional power of the state, some ideological continuities and shifts are evident. One of the continuities was that the HCI Plan, like the primary EOI plan before it, laid bare the leadership orientation of the state in conjunction with its strong commitment to economic development. Whether speaking of the EOI or the secondary ISI reforms, one fact should be clear: the Korean government, not the market, steered its economy toward export-led growth and modernization of industry. In the same way Park government took bold steps toward increasing exports, it initiated a distinctly new set of policy reforms to speed industrial modernization. The Park government showed a marked tendency toward leadership to *anticipate* the market and what was best for the private sector, which is a step beyond *following* market signals and responding to pressures from the private sector.

The state gained confidence in its ability to formulate successful technocratic plans and its ability to rigorously implement them. This confidence sprang from the fact that government had not only formulated a successful plan for the promotion of exports but also had administered the hugely successful Steel Plant and the Hyundai Shipyard. "The government concluded that these successes did not occur by accident but were the natural outcomes of bold risk taking and careful utilization of changing domestic and international economic conditions."[100]

Such confidence was reinforced by the fact that sufficient information had been accrued on the developmental histories of developing countries for the state to conclude the moment was ripe for industrial deepening in the early 1970s.[101] The Japanese model was a particular aid. "[I]n order for South Korea to catapult into the ranks of advanced nations . . . development of HCI was the only available choice, and . . . there was little

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[99]Lee, "Promotion Plan," 443.

[100]Ibid., 439.

[101]Chang, "Industrial Policy," 146.

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reason why South Korea could not repeat the Japanese success."[102] However, the state became harder and developed the HCI plan with respect to its alliance with business, which is discussed below.

The State-Business Alliance

On the most general level, the HCI Plan entailed a new relationship between the three forms of capital. The state imposed a distinct division of labor between public, local, and foreign industrial capital. The state elected the local private, not the public, sector to be the central locus of new industry. However, this assertion deserves certain qualifications. This definitely did not mean that the state had decided to let the decisions of firms be governed by the guiding hand of the market rather than the long-reaching arm of the state. If anything, the degree of coercion and incentive increased during the 1970s. It also did not mean that the government would refrain from engaging in public enterprise. The growth of public enterprises in Korea is widely recognized.[103] Since the state selected a few key, large projects to make public productive investments, "it was a top-down rather than a bottom-up approach to industrial restructuring."[104] Such public investments sought to provide a minimum market size and stimulate a chain of related investments by the local private sector. This approach stood in stark contrast to the one followed in Brazil.

Foreign firms were to become a significant minority during this epoch of industrial deepening. Such firms were exploited for their technological abilities. The state placed specific conditions on foreign firms which focused specifically on facilitating the rate at which technology could be transferred from foreign firms to local firms. Foreign industrial capital was discriminated against in favor of foreign loan capital which was channelled into large local conglomerates. Moreover, in terms of investment, foreigners were discrimin-

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[102]Lee, "Promotion Plan," 439.

[103]Three articles in particular originate from edited volume by Deyo, Asian Industrialism. These include Cumings, "Northeast Asian Political Economy," 123-124, 128; Haggard and Cheng, "State and Foreign Capital," 123-124; Fredric C. Deyo, "Coalitions, Institutions, and Linkage Sequencing--Toward a Strategic Capacity Model of East Asian Development," in The Political Economy of the New Asian Industrialism, ed. Fredric C. Deyo (Ithaca: Cornell University Press, 1987) . 136-238.

[104]Lee, "Promotion Plan," 436.

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ated against in favor of local capital. Only if technology in an industrial sector was exceedingly complex, prohibitively expensive, or simply unavailable on the market, did the state allow foreign firms to enter modern sectors. Even then, the standard condition for entrance was the joint venture. After the condition of the joint venture had been met, the state negotiated conditions with foreign firms concerning, among other things, the rate at which technology and ownership would be transferred to local firms. Such negotiations maximized the position of local capital *vis a vis* foreign capital in assuming the dominant position in the joint venture. An antecedent to such negotiations was the state's continuing encouragement, once the contribution of foreign firm to the local firm's expansion was obsolete, for the local firm to squeeze the foreign firm out of the joint venture entirely.[105]

Since the alliance between the state and local capital is one of the most critical to understanding the nature of Korean development, it is described in more detail. In the section on the first period of the Park regime and EOI, this thesis discussed the primary alliance that the Park regime made with local light industrial exporters and the secondary alliance the state made with large local capital during the EOI period. The hierarchy of these alliances changed during the period of secondary ISI. Now, the state forged a primary alliance with large local capital and a secondary alliance with local light industrial exporters. Similarly, the main policy emphasis changed from trade policy, pursued during primary EOI, to investment policy, pursued during secondary ISI.

The detailed intervention into the investment decisions of the private sector as was associated with the HCI Plan implies a great deal of coercion. "Though they strongly influenced resource mobilization and patterns of resource allocation, . . . past plans were [indicative plans] not imperative plans . . . An imperative plan, in contrast to an indicative plan where only broad objectives and strategies are provided, is quite detailed. The programs in the imperative plan are expected to be executed meticulously."[106] Coercion was not only required because of the meticulous technocracy of the Korean state, but

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[105]Mardon, "Control of Foreign Capital." 120-122, 126-137.

[106]Lee, "Promotion Plan," 441.

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coercion was necessary because the state sought to override the objections raised by the private sector over the wisdom and profitability of the HCI investment projects.[107]

Two interrelated methods of coercion will be mentioned here. "A typical method of coercing was to convey to the concerned businessman President Park's wish to see the businessman's participation in the HCI Plan's projects."[108] Another typical method that gave the first method its teeth was to threaten or actually withhold either subsidized credit from intransigent firms.[109] In special cases of intransigence, the state had actually resorted to bankrupting firms by this method. This left the impression with the domestic private sector that no firm was safe and that even state suggestions, much less its commands, should be considered with the utmost seriousness. While the state used coercion during the EOI phase to prompt firms to increase exports, the intensity of coercion increased dramatically during the HCI phase to influence the direction of investments toward modernization.

To complement coercion, the plan offered generous incentives for participating in HCI projects. First, the state used various credit incentives to facilitate HCI investment. The state facilitated the redistribution of resources toward HCI sectors through the National Investment Fund (NIF). Even though the NIF did not lend exclusively to HCI participants, the growth of the fund and composition of NIF lending heavily favored the development of HCI sectors. Because the HCI Plan was too immense of a project to be solely financed by the money in the NIF, the state-owned banking sector made up much of the difference. Such loans to HCI projects rose dramatically in the 1970s. Moreover, bank credit to these sectors was heavily discounted. This was not only true in that the state held the macroeconomic price for loans (the interest rate) below the market rate but also in that the microeconomic controls meant that borrowing costs of the HCI sectors were 25% below the average borrowing costs of other sectors. Also, the terms for repayment for HCI sectors were longer than non-HCI sectors. Since the low interest rates created excess demand for bank credit, the state moved to an even more central position in

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[107]Ibid., 441, 436.

[108]Ibid., 441.

[109]For this see Jones and Sakong, Government, 101-110.

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its ability to control the direction of industrialization by allocating cheap, long-term credit to its preferred sectors and to the firms.[110] Although these allocation measures signalled a change of policy regimes from one that supported primarily EOI to one that supported primarily secondary ISI, important continuities were evident as well: "Whereas subsidized credit for working capital was available to any exporter, long-term capital at subsidized interest rates was allocated to only targeted firms and industries."[111]

Second, the state used tax incentives to encourage HCI investments. A measure that constituted a "major support" to the heavy and chemical sectors came in the form of the Tax Exemption and Reduction Law of 1975.[112] Since this law allowed accelerated depreciation of equipment for the purpose of reduced taxation, investment tax credits, and tax holidays to firms engaging in HCI activities, such firms paid significantly less tax than non-HCI firms.

Third, trade policy, particularly the Limited Tariff Drawback system, also supported the HCI plan by placing import restrictions on the more modern import substituting industries. Heretofore, to help Korean light exports be more competitive, tariffs on capital goods and inputs used by export industries were either low or nonexistent. Now, however, high tariffs were levied on such goods, promoting a greater share of domestically produced inputs and capital goods.[113] Other trade policy measures also supported HCI sectors including domestic content requirements, tax credits for firms investing in domestically produced goods, and in most cases high entry barriers to encourage monopoly or oligopoly in HCI sectors. Even as policy shifted from one supporting primary ISI to one supporting secondary ISI, the state still emphasized exporting from both traditional and modern sectors. "Pressure to meet ambitious export targets gave the Big Push into heavy industry its frenetic character."[114]

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[110]Lee, "Promotion Plan," 442.

[111]Amsden, Giant, 73.

[112]Lee, "Promotion Plan," 447.

[113]Ibid., 442, 447.

[114]Amsden, Giant, 16, also see 73-74.

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Fourth, the incentive system to industry included various types of fiscal expenditures in the HCI projects. These included investment by public enterprise in HCI projects, construction of HCI industrial parks, credit subsidies for HCI related investments, and R&D outlays.

Finally, the Korean state knew it must help to create a contingent of managerial and technological elite within the productive sectors.[115] Though late industrializing countries in general have better educated populations than those of the first and second industrial revolutions, "*[e]ven among late industrializing countries, Korea tends to excel in most indices of education, standardized for population size*."[116] Changing conditions in US foreign policy and the global economy contributed to the state's decision to pursue a deepening program as is explained below.

The State-US Alliance and the Global Economy

The US made changes in its foreign policy toward East Asia which may have prompted Korea to switch to a secondary ISI strategy. Such changes resulted in Korea's feeling more vulnerable to security threats. "President Park Chung Hee decided to adopt a policy of self-defense to ensure the national security of Korea. Such a policy required an economy centered on defense industries and supported by the development of HCI [heavy and chemicals industries]."[117]

In addition to the changing security situation, Korea faced four international catalysts which resulted in the formulation and implementation of the HCI Plan. First, though Korea (and Taiwan) had cornered the world market for light industrial goods, this hegemony was threatened and rapidly eroded by a second tier of East Asian NICs. Second, the US and other industrialized countries began placing import restrictions on Korean light manufactures in the late 1960s; this made the future for light manufactured

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[115]For statistics on this increase in technical and managerial students, manpower, and training facilities see ibid., 218 and Lee, "Promotion Plan," 488.

[116]Amsden, Giant, 217. For more on "industrializing through learning" one need only consult Chapter 1 of this work by Amsden which was given precisely this title.

[117]Lee, "Promotion Plan," 437.

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exports look dim. Third, the oil crisis of 1972 influenced Korea and other NICs to pursue deepening because of the ready supply of recycled petrodollars on the international credit market and the means of using them to avoid adjustment through recession.[118] Thus, import substitution in the heavy and intermediate goods areas seemed like an attractive option: "Korea would not be able to overcome its trade deficit and consequent foreign debt burden as long as it continued to rely on foreign capital goods and intermediate materials to produce light industry export products."[119] Finally, Korea's "comparative advantages" underscored the rationale to pursue secondary ISI.[120] These included a well trained and low wage labor, development of state of the art facilities, the ready availability of foreign credit, critical market size (attained by Korea in the early 1970s) to support ISI, and a rough correlation of ambitions between the local private sector and the state. But the developmental aspirations between the state and the local business leaders were not identical. Since the local firms opposed the concept of an intense drive into heavy and chemicals in principle, the "initiative to diversify, therefore, fell to the state."[121]

INDUSTRIALIZATION DURING THE LAST PERIOD OF MILITARY RULE (THE CHUN ADMINISTRATION, 1980-88)

Korea experienced some rather severe economic difficulty in the wake of the second oil crisis which made some observers question the wisdom of the HCI plan. Even so, the modernization of industry is also credited with helping Korea overcome its economic crisis. Consequently, the plan has been redeemed in the eyes of many observers.[122] Aside from the oil crisis and the distortions the HCI plan may have

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[118] Albert Fishlow, "Latin American Adjustment to the Oil Shocks of 1973 and 1979," in Latin American Political Economy: Financial Crisis and Political Change, eds. Jonathan Hartlyn and Samuel A. Morley (Boulder: Westview Press, 1986), 57.

[119] Lee, "Promotion Plan," 438.

[120] Ibid.

[121] Amsden, Giant, 88.

[122] A balanced view of the successes and failures of the HCI Plan can be found in Sakong, World Economy, 59-60 and Lee, "Promotion Plan," 455, 456-57. These authors allude to the changing leadership commitment from "growth first" to "stability first." Amsden offers a less reserved endorsement of the HCI Plan. See Amsden, Giant, 85, 88, 94, 107-108.

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introduced, political turmoil may have also worsened the economy as the country's 20-year leader was assassinated: "Park's assassination was followed by a period of serious turmoil and weak political leadership under Choi Kyu-hah."[123] This interim leadership lasted just a year and a half. The period came to an end with the inauguration of Chun Doo-Hwan. President Chun promised to restore economic growth and promote the conditions for a return to democracy in 1988. Like the military presidents in Brazil, Chun also limited himself to one term.[124]

Within Chun's presidency, economic policy and economic performance centered around two themes. The post-1980s economic policy concerned itself with the excesses of the HCI Plan (overcapacity and excess competition between firms) and the decline of the sunset industries. This phase in economic policy dealt with the repercussions of the second oil crisis and sought to lessen the economic hardships resulting from this crisis. The three economic policy initiatives corresponded roughly to these two economic concerns. The policy initiatives were stabilization, liberalization, and reorganization. While stabilization and liberalization suggest the pressure and influence of US economic philosophy on the Korean state, the reorganization suggests the influence of Japanese corporatism on this state as well as the influence of the intimate business-state relationship (which is itself a piece of the Japanese model).

The Origins and Policies of Stabilization, Liberalization, Reorganization, and Secondary EOI

Influence of Japanese Corporatism and the State-Business Alliance

The policy reform resulting from Japanese corporatism and the state business alliance entailed the reorganization of the industrial structure. Such reorganization had two components corresponding to two distinct subperiods: reorganization of the sunrise industries (1980-84) and the sunset industries (1984-88). Both subperiods of reorganization sought to increase the oligopolistic tendencies in an economy that was

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[123]Norman A. Graham. "The Role of the Military in the Political and Economic Development of the Republic of Korea." Journal of Asian and African Studies 26. 1-2 (1991): 119.

[124]However, the term to which Chun limited himself to was a long one, eight years, while Brazilian military presidents limited themselves to five-year terms.

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already heavily oligopolized. Since neoliberal philosophy is based on competition of firms in a free market, reorganization was diametrically opposed to liberalization because it entailed a profound amount of state intervention into the economy and contributed to an increasing oligopolization of industry. In these ways, though, economic policies affirmed the state's affinity for Japanese corporatism and its alliances to local heavy and light industrial firms. In this way, the state sought to reduce "wasteful competition" which was thought to be responsible for the excess capacity. The reorganization of the sunrise industries was intended to correct for the *chaebol*'s financial difficulties arising from capacity overhang and slack demand for products manufactured by HCI firms. The sunset industries were reorganized so that their declining comparative advantage could be prolonged for as long as possible.

The policy directives here were also aimed at consolidation of the market for fewer firms.[125] In addition to affirming the state orientation toward Japanese corporatism and its alliance to large local capital, the policy could also be said to be directed toward correcting the policy excesses of the 1970s. Whatever the impetus for this policy reform, the effect of strengthening the local private sector was the same: the state geared reforms toward strengthening conglomerates against the adverse economic conditions of the second oil crisis. Moreover, the reorganization agenda comprised reforms which would salvage the new industries from bankruptcy and make them more profitable as well as more competitive on the world market. Reorganization was a double-edged sword. Discipline made up one edge of this sword. Reward made up the other. The basis for deciding which *chaebol* would be rewarded and which would be disciplined depended upon economic performance of the new firms in question. Reorganization constituted the leading source of state microeconomic intervention in the 1980s.

The first phase of this reorganization extended from 1980-84. In the power generating equipment industry, four firms were consolidated into one firm which the state then nationalized. One of the three passenger car producers was forced to exit and produce only buses and trucks until demand tightened. In the naval diesel engine industry, one firm (Daewoo) and the two others (Hyundai and Ssangyong) were forced to divide

[125]The following derives from Chang, "Industrial Policy," 148-49.

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the market into segments so that each segment could be monopolized by one company or another. The eight heavy electrical industries were also reorganized. Three of them were consolidated into one (Hyosung) and allowed to produce only expensive and highly specialized products. Four other lesser companies were forced to only produce cheaper and less intricate products. The state asked the last (Hyundai) to produce for its sister companies. In the electronic switching system industry, the four existing firms (Samsung, Gold Star, OPC, and Daewoo) were required to specialize in different product lines so as to minimize competition. The state consolidated two firms in the copper smelting industry by forcing one firm to buy out the other. This in turn was supported by a moratorium on past bank loan repayment and participation in the company by the Korean Development Bank. The state sought to remedy overcapacity of these infant industries by reducing "unhealthy competition."

The next phase of this reorganization occurred between 1984 and 1988. Unlike the first phase of reorganization, this second phase concentrated on sunset industries including overseas construction, fertilizer, and shipping. In 1984, the firms in the shipping industry were reduced to less than one-third of their 1983 number. In that same year, three fertilizer firms were liquidated. Government intervention continued between 1986 and 1988 as the Korean government reorganized 82 inefficient firms. The shipping and overseas construction industries constituted around one-fourth of such reorganizations.

Though such reorganization was geared toward creating monopoly and reducing market competition, certain facets of competition were not lost in such reorganizations. As Chang illustrates, firms competed in such reorganizations to *escape state discipline* (i.e., restricting a firm's market shares or rescinding a firm's right to produce for the market at all) *or garner state favor* (i.e., expanding a firm's oligopoly power over the market or creating monopoly power for a firm).

> What is notable in the conduct of such 'reorganization' programmes is that even the economically and politically powerful conglomerates, *chaebols*, as individual *conglomerates*, were not immune to state discipline, although, as a *group*, they were certainly privileged in their access to various rents. To the Korean policymakers, it seems to matter less who runs a business than that it is run efficiently. If a particular *chaebol* runs a plant well, fine; otherwise, the ownership has to be transferred to another *chaebol* or even to the public sector. . . . The fact that *chaebols* as conglomerates are potentially able to move into any line of business

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> (on the basis of their activities in related lines) makes it difficult for a particular *chaebol* to keep any particular industry in its fiefdom. Unless it remains reasonably efficient, other *chaebols* can easily persuade the state that they can do a better job and get state support in the next round of capacity expansion in that industry. Therefore, the *chaebols* had a powerful incentive to remain efficient, especially when the loss of state support can mean a sharp downturn in business . . ., given the state control of credit and the high leverage of Korean firms.[126]

While the guiding hand of the market and that of the state may have the same result in the long run, the state determination of whether firms are allowed to produce may be preferable to market determination in several respects. The "state method" is quicker and more efficient than the "market method." Also, knowing that a concrete entity, instead of the abstraction of market forces, determines which firms survive and fail add an additional catalyst for firms to achieve peak efficiency and performance in the economy.

A final point that should be made about the ownership reorganizations that occurred between 1980 and 1988 is that these were hardly a new means of strengthening favored business groups. Rhee had created the *chaebol* out of the sale of government properties, aid distribution schemes, and allocation of covet rents.[127] This represented a basic reorganization of property at its time just as the current reorganization of properties embodied a basic shift. The difference is that, while the *chaebols* during the 1950s *were being created* to do great things in the future, the *chaebols* during the current reorganizations *were being salvaged* from the difficulties that such great accomplishments entailed and from the abrupt economic environmental changes brought on by the second oil crisis. Beside reorganization, the state formulated and implemented two more sets of reforms as this paper will show.

Influence of Neoliberalism and the State-US Alliance

The policies of stabilization and liberalization resulted from pressures from the US and the partial conversion of the state to the doctrine of neoliberalism. The degree of liberalization remains in debate, but there is little argument over whether or not the state

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[126]Ibid., 149-150.

[127]The best source for discerning the contribution of sales of public properties to the creation of the *chaebol* is Jones and Sakong, Government, 270-273. Also see Cheng, "Political Regimes," 146-148.

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became more inclined toward stabilization policies than it had in the past. In the post-1980 phase of economic development, the Korean state maintained its leadership qualities but adopted a *stability-dominated*, as opposed to a *growth-dominated*, perspective in economic policy.[128] This represented a major metamorphosis of the orientation of the state toward a "developed country" perspective on macroeconomic policy. This metamorphosis was precipitated by the economic crisis. This crisis was, in turn, associated with the oil crisis, on the one hand, and the macroeconomic distortions caused by the HCI plan, on the other. Having induced one component of the private sector to radically increase exports and having induced another component of the private sector to grow large through diversification, the state could concern itself with less grandiose tasks: it was at this time that the Korean state began the fine-tuning of its economic machine through conservative macroeconomic policies. This did not mean that economic growth was not important, still, or that state intervention had been totally abandoned.

But price stability was not the only area in which the Korean state directed policy reforms. Another such area was that of liberalization. Liberalization occurred in the areas of trade and banking. Neoliberal scholars assess liberalization as the medicine for the heavy state intervention created from secondary ISI.[129] According to this view, the liberalization of incentives made Korean exports more competitive on the world market.

The state engaged in two major areas of liberalization: trade was the first such area. While some efforts in liberalizing trade are evident, such liberalization in Korea may be more an experiment in "lip-service" than a concerted effort to remove import barriers: "To assess the openness of Korean trade after liberalization is as hard as assessing the godliness in a reformed heretic."[130] Second, the Korean state liberalized the banking system. This measure signaled a dismantling of a cornerstone of the 1970s moderniza-

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[128]Compare the changing nature of leadership commitment in Sakong, World Economy, 44-45, 56-60, 68-71.

[129]For this view see Lee, "Promotion Plan," 450, 454. While state intervention most certainly decreased, liberalization probably did not result directly in economic recovery, as some claim. Ironically, behind the scenes state intervention, even during this period of liberalization, probably did the most to speed the economic recovery. See Amsden, Giant, 93-94.

[130]Ibid., 134.

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tion program since subsidized interest rates had promoted the expansion of new industry. Neoliberals claim that liberalizing government control over the banking system translated into closer-to-market interest rates and caused the state to shift "its role away from making investment decisions toward coordinating industrial policy and promoting small and medium-sized firms."[131]

However, the degree of Korean financial liberalization is questionable. Amsden not only discounts the idea that financial liberalization (to the extent that it has occurred) disadvantaged big business *vis a vis* small but also maintains that the degree of financial liberalization was not exceptionally large. Despite the measures to liberalize the state manipulation of the banks and prevent big business from gaining control over the banking system, it soon "became clear that the government had by no means altogether relinquished administrative control over the banking system. It had also become clear that big business groups had not been prevented from taking equity control [of the banking system]."[132] This meant that the *chaebol* did not react with chagrin to financial liberalization but with appreciation: "In exchange for whatever trade liberalization actually occurred, the big business groups won critical concessions from the government in the area of finance."[133]

Critics of secondary ISI in Korea contend that it was harmful to the Korean economy to have resources misallocated toward heavy industry and directed away from light industrial exports. This argument is often cased in terms of the harmful effects of state intervention (which brought about the HCI program); and this economic harm that comes from intervention is contrasted against the economic good that follows from adherence to the market mechanism (which brought about the success of the EOI program). On a theoretical level, this assertion can be refuted on the grounds that it creates a false contrast: the most persuasive evidence that this research has uncovered suggests that primary EOI was no less a product of heavy government intervention than secondary ISI was. On an empirical level, the statistics show no cataclysmic drop in

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[131]Lee, "Promotion Plan," 454.

[132]Amsden, Giant, 135-36.

[133]Ibid.

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export growth between the period of EOI and the period of secondary ISI. Exports grew at only marginally slower rates in the period of secondary ISI than they did during primary EOI.[134] This leads one to conclude that the disincentives toward exports during the HCI promotion years must have been rather mild.

Similarly, some claim that the heavy state intervention associated with the HCI Plan further burdened an economy racked by the oil crisis. However, Amsden claims that the development of HCI industries contributed to significant economic development prior to the second oil crisis:

> [In the wake of the first oil crisis, the] government responded in January 1974 with measures to maintain overall growth. A policy decision was taken to absorb fully the oil price increase, and that decision contributed in 1974 to a 62% rise in imports. . . . The current account deficit jumped by a factor of 5 to 11%, a historic high, despite a growth of exports of 16%. To finance the deficit, the government both borrowed abroad and depleted foreign reserves which fell by 3.5% in a year. Between 1973 and 1974, Korea's total foreign debt rose 42%. . . .
>
> The country reaped the rewards of both borrowing and running down its reserves in the form or positive growth--7.7% in 1974 and 6.9% in 1975--at a time when most non-oil producing countries were plunged into depression. By 1976 fast growth had resumed and GNP grew by 14.4%. Although investments as a share of GNP declined, exports grew by a staggering 49.2%. . . . Output continued to soar after 1976-77. . . . The current account deficit, moreover, remained healthy until [the second oil crisis]. . . . Thus, *amidst the Big Push into heavy industry in 1977-79 and just before the second oil crisis in July 1979, the Korean economy was in good shape. . . .*
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> . . . In studies sponsored by the World Bank . . . liberalization in Korea in the 1980s is rationalized as a medicine for economic diseases supposedly caused by government intervention in the 1970s. *Yet the premise of economic disaster is nowhere substantiated. . . . Most economic indicators, including the current account and the debt-GNP ratio, imply that just before the second energy crisis, the economy was performing rather well, a Big Push into heavy industry not withstanding.* [135]

In summary, a large degree of credence can be given the fact that the Korean state had seriously engaged in conservative macroeconomic controls to dampen inflation. This reflects not only an acceptance of the US advice for following the dictates of neoliberalism, but it also reflects the reality that Korean industry had reached a state approaching

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[134]For supporting statistics, see ibid., 56.

[135]Ibid., 94, 99.

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that of the industrialized countries. The extent and effects of liberalization are less clear. Perhaps the amount of state intervention in the trade and banking industry had receded, though it is doubtful that it had disappeared. In the 1980s, perhaps the state's affinity for the *chaebol* did decline, but it is doubtful that state policy attempted to seriously undercut the domination of the Korean economy by the large conglomerates. To seriously reduce the degree to which the state intervened in the economy, to significantly undermine the state alliance with big business, or to significantly curtail the economic hegemony of the *chaebol* would fly in the face of model of development that had worked so well for Korea in the past.

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CHAPTER IV
BRAZIL

INDUSTRIALIZATION BEFORE 1950

As in Korea, Brazil's industrialization hardly began with authoritarian rule. In Brazil, there has been one overpowering component of industrialization. This is a growing flirtation with import substitution which began unconsciously and only became fully conscious in the 1950s. It is true, however, that external crises (exogenous factors) tended to shape industrialization much more than government policy in both Korea and Brazil during the early periods. It is uncertain whether tariffs were effective in bringing about industrialization before the 1890s. Versiani has linked tariff policy and periodic exchange rate fluctuations to four short spurts of heightened investment and industrialization in Brazil's most dynamic sector (cotton textiles) of the 1870-1914 period; however, Fishlow denies the contribution of this tariff policy to industrialization before 1950.[1] For Fishlow, monetary expansion precipitated a real devaluation in the 1890s which constituted the first phase of unconscious ISI. While recognizing this, Versiani also claims tariffs, which shot up in the late 1880s, also played a role in this unconscious ISI. It is also uncertain whether tariffs in the 1880s were the result of the accommodation for industry or the government's need to secure revenue.

Another investment spurt occurred in the six years before World War I. This period of investment coincided with the appreciation of the currency. However, tariffs had been raised at the turn of the century which equilibriated domestic and import prices of textiles. The domestic textile industry, encouraged by an appreciated exchange rate and a booming market, invested in imported equipment. The pre-World War I period was the last case in which the efficacy of tariffs can even be argued before the 1950s.

World War I was another instance of ISI. The war interrupted the supply of imports, which cut two ways in terms of economic development. On the one hand, the supply of manufactured consumer goods was cut off, which stimulated more intensive use of the expanded means of production acquired before the war to satisfy a captive market.

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[1]Versiani, "Industrial Investment," 308; and Fishlow, "Origins," 312-313.

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On the other hand, light industry dominated the industrial structure at this time. Textiles, clothing, food, and shoes contributed 57% to the industrial product in 1907 and 64% in 1919.[2] The war cut off imports of machinery, which basically meant little expansion of the productive capacity of existing dynamic sectors or little expansion of dynamism into other sectors occurred.[3] Some expansion did occur, but the main positive effect was redistributing wealth into the industrial sector that was used for investment to expand and change industrial capacity in the future.

The fortunes of light industry fluctuated with the contradictory monetary and exchange rate policies. Tight credit policies especially disadvantaged textiles. Coffee valorization policy entailed government purchase of excess stocks of coffee. The success of this scheme, by increasing the income of the coffee sector, must have given some boost to domestic consumer goods industry. However, the valorization scheme made coffee seem artificially profitable which must have forestalled capital movement toward industry. Though traditional sectors flagged, newer sectors such as cement, iron, steel, and paper grew appreciably. As the World War I period represented an era of expansion of output with little development, the twenties, paradoxically, represented a period of decline of total output with an increase in industrial modernization.[4]

The 1930s represented a period of unprecedented expansion of output and industrial change. Exchange controls were introduced to prevent a total collapse of the balance of payments situation and became the source of import substitution. Consumer goods virtually completed the ISI process while this process catapulted cement, iron, and steel industries into the lead of sectoral dynamism. While the diversification was healthy for the economy, the traditional sectors would suffer in the 1950s from not updating their outmoded technology. This led to the early decline of the sector and with it a major source of labor-intensive employment.[5]

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[2]Baer, Brazilian Economy, 26.

[3]Ibid., 31.

[4]Ibid., 32-36 and Flavio Rabelo Versiani, "Before the Depression: Brazilian Industry in the 1920s," in Latin America in the 1930's, ed. Rosemary Thorp (New York: St. Martin's Press, 1984).

[5]See Baer, Brazilian Economy, 36-40 and Fishlow, "Origins," 339.

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World War II was different from the other crises in that Brazil had, because of favorable coffee prices and favored access to the US market, a heightened capacity to import. However, war-time shortages made imports inaccessible. The domestic producers were better able to adapt to meet domestic demand. According to Fishlow, after the war, a policy of *non-ISI* was introduced to act as a subsidy to industry.[6] True, the currency was substantially overvalued, which made this instance different from former instances of ISI, but import licenses ensured that only goods deemed essential to industrialization would be allowed into the country. This meant that while the domestic capital goods industries faced competition from imports, the durable and nondurable consumer goods industries profited from their protection from competing imports. Moreover, overvaluation acted as a subsidy for industry to buy cheap foreign equipment. There were a number of difficulties with the system of overvaluation of the 1940s. Most importantly, unconscious ISI was not as efficient at instigating industrialization as conscious ISI would have been.[7] Overvaluation, the hallmark of unconscious ISI, had a number of negative consequences including export pessimism, capital intensive industries, and balance of payments disequilibrium.[8]

INDUSTRIALIZATION DURING
THE DEMOCRATIC PERIOD (1950-1963)

Brazil progressed through three electoral periods in its democratic phase. Each had significant implications for Brazil's political economy of development. Getulio Vargas ruled Brazil form early 1951 to early 1954.[9] Vargas' economic policies were "mixed" between reformism, developmental nationalism, and neoliberalism. However, they leaned more heavily toward developmental nationalism. Brazilian nationalism was split between those who endorsed simple economic development and populists who wanted economic

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[6]Ibid., 343.

[7]A more conscious favoritism of industry over agriculture would not have been politically feasible for Brazil at this time.

[8]Fishlow, "Origins," 343-344.

[9]The first electoral period is based on Skidmore, Experiment, chapters III and IV.

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development with social reform. An important influence on the former group was the technocratic component that worked in the Joint Brazil-US Economic Development Commission (1951-1953). This group looked at ways in which bottlenecks to economic growth could be removed. The work of the Joint Commission strongly influenced the "Lafer Plan," designed by Finance Minister Horatio Lafer. It helped economic development by promoting certain industries and removing economic bottlenecks. It did this through import substitution, which was set up through a flexible multiple exchange rate system. The plan found finance through foreign private, public, and World Bank loans.

The Lafer Plan, along with the investments it stimulated, also resulted in balance of payments problems, foreign debt accumulation, and inflation. Though Lafer had tried to stabilize the economy, he had been thwarted by the intransigence of Ricardo Jafet, president of the Bank of Brazil, who had refused to raise interest rates. The new Finance Minister Oswaldo Aranha developed the "Aranha Plan" for reducing the public deficit, controlling credit, and regulating foreign exchange. Still, the stabilization plan still allowed the most "essential" imports for economic development into the country.

However, Vargas became disenchanted by both the orthodox technocrats (associated with the Aranha Plan) and the developmental technocrats (associated with the Lafer Plan) and drifted toward the populists. His appeals to labor and attacks on foreign firms allude to this drift. The anti-foreign rhetoric translated into policy in 1951 when public monopolies, Petrobras and Electrobras, were created in sensitive areas, oil and electricity, respectively. Vargas turned further left when he appointed Joao Goulart, seen as a radical leftist, as Labor Minister in 1953 and endorsed Goulart's recommendation that the minimum wage be raised 100% in 1954. The military, offended by Vargas' populist migration, moved to depose him. However, Vargas committed suicide rather than leave office. He left behind an inflammatory suicide note that made him extremely popular and served to ingrain the "Vargas tradition" even deeper into Brazilian politics.

Vice President Cafe Filho took over the presidency after Vargas' suicide. While Filho was much more orthodox than Vargas, he, for the most part, eschewed radical reorientation of his successor's policies. Filho backed a mild stabilization plan. However, one conservative reform by the Filho government, SUMOC 113, had extensive

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implications. SUMOC stands for the Superintendency of Money and Credit, a semi-autonomous branch of the Bank of Brazil with policymaking ability. SUMOC 113 served to attract foreign investors by granting foreign firms the most preferential exchange rate for importing inputs. The only "catches" were that the sectors that the foreign firms entered had to be considered important by the state, and the foreign firm had to establish a local partner in the project to be eligible for the exchange discount.

The second electoral period began in 1956 with the election of President Juscelino Kubitchek and Vice President Joao Goulart.[10] Both were in the Vargas tradition. Kubitchek's developmental policies ran on two separate tracks. First, there was the Brasilia project. This entailed moving the capital of Brazil from Rio de Janeiro to the underdeveloped interior, Brasilia. This was not only a powerful political symbol but was also a "pork-barrel" gold mine. Brasilia was a huge construction and infrastructure project and contracts for construction were traded to congressmen for their support of portions of Kubitchek's developmental program to which they might have otherwise objected. Despite the political benefits that the Brasilia project may have offered, some of Kubitchek's technocratic supporters "saw Brasilia as a white elephant which led to inflationary pressure and diverted resources from productive activities."[11]

The second track, the "Targets Program," received more unified technocratic support. This plan, too, had its origins in the work of the Joint Commission. The program consisted of thirty targets in five major areas (energy, transport, food, basic industry, and education. Of these, basic industry received the greatest support and the most emphasized specific industries were steel, petroleum, roads, and automobiles. The World Bank, conceived as a major source of finance for the plan failed to provide significant support. Despite this, because of preexisting commitments, the World Bank provided more loan capital to Brazil than to any other Latin American country between the time of the Bank's creation and 1961. The US Import-Export Bank (Ex-Im Bank) was more helpful. In spite of the loans Brazil received from public sources, technocrats felt

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[10]The second electoral period is presented with the help of ibid., chapter V; and Sikkink, "Developmentalism," chapters V, VI, VII, and VIII.

[11]Ibid., 253-254.

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they had been promised more public laons during the Joint Commission than they received. To partially make up for what it did not receive from public sources, Brazil borrowed heavily on the private market at higher interest rates and shorter terms of maturity. Finally, the National Bank of Economic Development (BNDE), which was partially a product of the Joint Commission, also facilitated the Targets Program by channeling foreign and domestic credit to basic industries and bottlenecked areas.

Outside the areas of securing loan capital, two other policy tools were important in implementing the Targets Program. The Tariff law of 1957 was important in this regard. This was the first instance of conscious ISI in Brazil and it induced much foreign investment in Brazil. The second device, the extensive use of SUMOC 113, discussed earlier, undergirded the tariff law and offered an additional incentive to foreign investment.

The Targets Program, beyond the substantial increase in economic development that it catalyzed, also resulted in balance of payments difficulties, debt servicing problems, public deficits, and inflation. Kubitchek attempted to remedy these problems with the 1958 stabilization program, developed in consultation with the IMF. Ultimately, the stabilization plan contradicted the developmental plan. Kubitchek broke with the IMF in mid-1959. The strategy of national development had been reaffirmed, but it was not trouble-free. Additional financing from the US and the IMF was contingent on successful stabilization and Brazil's external bottlenecks and internal inflation were still worrisome.

The third electoral phase began in 1961 President Janio Quadros and Vice President Joao Goulart assumed the top governmental positions.[12] Finance Minister Clemente Mariani carried out drastic stabilization measures that resulted in recession but rectified Brazil's external accounts and slowed inflation. Foreign creditors, again, began to lend heavily to Brazil. However, stabilization only lasted six months, and, two months after that, Quadros resigned. Thereafter, Goulart, became president. He was only allowed to do this after reaching an agreement with a military that was highly suspicious of him and initially blocked his ascension. The agreement was that Goulart could only assume the presidency if he relinquished much of his power. The Goulart government can be divided into four policy phases. He spent the year of 1962, maneuvering to regain his

[12]For this period, see Skidmore, Experiment, chapters VI, VII, and VIII.

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presidential powers. Part of this strategy was to create political and economic havoc to convince the military and the public that the Brazilian political-economic system would not function under the parliamentary system. In any event, this lack of leadership on the part of Goulart, whether contrived or real, resulted in the turbulent years of the early 1960s being "devoid of any consistent line of economic policy."[13] After he won back full presidential powers, Goulart spent half of the year in 1963 experimenting with moderately leftist policies, which were designed to work within the government by utilizing the "positive" left. Finance Minister Santiago Dantas and Planning Minister Celso Furtado designed a three-year plan, the "Dantas-Furtado Plan." This plan was the first economic plan that attempted to balance stabilization, pro-growth, and reform policies under one coherent developmental package. Nevertheless, the plan was promulgated at a time when economic and political stability were at a low ebb. Consequently, it failed. The other half of the year Goulart spent drifting toward the more extreme leftist views while initiating surprisingly little policy direction. In early 1964, Goulart abandoned trying to work inside the government, breaking off negotiations with the deadlocked congress, and began ruling by presidential decree on behalf of the "negative left." His decrees were too shocking and reformist for the military, which had already begun conspiring against him. In early April, the military ousted Goulart and established a military government.

On the whole development during the 1950s in Brazil was very rapid. Rapid growth was especially concentrated in the transport equipment industries. The electrical equipment industries, metallurgy, and chemicals also made impressive gains. "Of the efficacy of the incentives there can be no doubt. . . . In no other intercensual period had such extensive structural change occurred [as in 1949-59]."[14]

Despite these accomplishments, however, there were also drawbacks to secondary ISI. First, this strategy gave Brazil serious balance of payments problems. This arose because ISI policy encouraged the import of capital goods while discouraging industrial exports and, to a lesser extent, agricultural exports, by giving primary exports an unfavorable exchange rate. The need to pay off foreign debt also hurt external accounts.

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[13]Baer, Brazilian Economy, 76.

[14]Fishlow, "Origins," 345.

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Second, the ISI strategy made Brazil vulnerable to and dependent on foreign capital.[15] To further industrialization while rationing foreign exchange (which had come to be in short supply with recurrent balance of payments problems) and to encourage technology transfer, foreign capital was actively pursued. ISI policies and other incentives made Brazil attractive to foreign capital because MNCs could duck under the protective tariffs and take advantage of Brazil's large market. It is not a matter of argument that Brazil needed some MNCs for technology transfer, but the extensive recruitment of MNCs was inadvisable because of some of the drawbacks to this type of development.

Third, underabsorption of labor constituted a daunting problem with ISI of the 1950s. While inappropriate technology can be associated with a high level of MNC penetration, the state was also to blame in that subsidies on the import of capital goods also resulted in low labor absorption. There are three negative consequences of low labor absorption. First, the result in a large gap in income inequality. Second, such inequality fostered a labor elite for which the market was skewed toward consumer durables. Third, and most importantly, the underutilization of the labor force was, in fact, a major weakness of import substitution in that it encouraged a narrowness of the market which, in turn, is associated with Brazil's cyclical stagnation periods. Such market narrowness and cyclical crises were exacerbated by the fact that exports were discriminated against as a result of import substitution policies.

After the boom of the 1950's, which culminated in the peak GDP growth rate of 10.3% in 1961, Brazil's economic picture turned suddenly bleak. "The immediate cause of the stagnation that set in after 1961 seems to have been the continuing political crisis that the country experienced after the resignation of Janio Quadros from the presidency in August, 1961."[16] "The lack of political control, the continued agitation for reforms and the lip service that Goulart paid to the latter, and the denunciation of foreign capital resulted in increasingly severe economic problems."[17] The downturn of the Brazilian

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[15]Repatriation of profits, price gouging through monopolies, and employing inappropriate capital-intensive production are the most common complaints about MNCs.

[16]Baer, Brazilian Economy, 77.

[17]Ibid.

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economy in the early 1960s spawned a backlash of pessimism about the viability of the ISI model from the left and the right.[18]

Brazilian presidents had been pulled in three directions: toward orthodox, developmentalist, and reformist policies. Now it was the military's chance to restore order to politics and the economy. While the military did restore order, it is interesting to note that the order was not static. At first, the military endorsed neoliberal policies. It, then, went through a period of promoting policies of national development. During *abertura*, it even became concerned about reform. Finally, it returned to neoliberalism in the wake of the debt crisis. The details of this progression are provided below.

INDUSTRIALIZATION DURING THE FIRST PERIOD OF MILITARY RULE (1964-1974)

The Castello Branco Administration

Following the 1964 coup which ushered in the Castello Branco regime, the Brazilian state was consumed with the ideology of economic orthodoxy. Since World War II, the Brazilian state implemented policies of economic orthodoxy. However, each of these had been prematurely aborted because Brazilian presidents were loathe to accept the political backlash associated with such policies.[19]

The situation had changed in the early wake of the 1964 coup, and "Castello Branco gave virtual carte blanche to Roberto Campos and Octavio Bulhoes, the economic ministers of the new government. . . . [In so doing, this period] marked a renewed and considerably more propitious opportunity for the Brazilian adherents of economic orthodoxy to sell their wares."[20] The popular conception of this period was that Brazilian policy making was carried out by a cadre of rational technocrats who came down on the side of orthodoxy and were responsible for the economic recovery; however, Fishlow proposes that these technocrats were not so insulated, and, thus, not so rational in a

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[18]For a discussion on the differences in the orthodox and structuralist scholars about the reasons for the failure of ISI see ibid., 77-78.

[19]See Ruth Berins Collier, "Regime Evolution," 85 for a good summary.

[20]Fishlow, "Reflections," 70-71.

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pragmatic sense, but more ideological and theoretical.

> [Economic policies in Brazil] after 1964 . . . have an important political overlay. . . . It is no secret that Campos' policies, if not the details of their execution, received the enthusiastic support of AID and the international lending agencies. The enthusiasm was more than passive. Brazil, during the 1964-67 period, ranked only behind India, Pakistan, and South Vietnam in net official aid receipts. AID program loans ranked as a prime contributor. . . . [T]hese loans necessarily involved close association between American and Brazilian policymakers. Furthermore, because advances from the International Monetary Fund were involved, the program loans negotiated went beyond American participation. The foreign influence was fully on the side of orthodoxy. . . . [B]y closing down the internal political process and giving virtual carte blanche to Campos and Bulhoes, the military government had also opted for magnifying the external influence upon domestic economic policy. . . . [T]he outsiders advice largely proved to be wrong. Program agreements did not stimulate development.[21]

The orthodoxy school considered the roots of inflation to be generous wage increases, government profligacy with the resulting monetary expansion, and loose credit policy. This evaluation, nevertheless, had its defects. Since these factors are easily rationalized with one another, Fishlow writes: "It is, therefore, not the conceptual inconsistency of the three models that is disturbing but rather their empirical inadequacy."[22] First, this theory is inadequate because it claims that wage hikes and easy credit were responsible for inflation despite the fact that such factors had shown declines in the 1959-64 period and inflation accelerated nonetheless. Second, this theory is inadequate because its formulation of the monetary function is faulty. This is true not only because it focused on the public deficit to the exclusion of other important determinations of monetary expansion but also because it proposed that changes in the money supply would lead to rapid price changes. Indeed, this belief was faulty because monopolies and oligopolies tended to compete with labor for shares of wealth which made the Brazilian economy resistant to monetary brakes on inflation. "This combination meant that declining money demand did not set in motion the strong pressures upon price which would be anticipated in a competitive setting."[23] The empirical errors in the orthodox model led to errors in

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[21]Ibid., 82, 83, 84.

[22]Ibid., 74.

[23]Ibid., 76.

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execution of the policies. Though Fishlow does admit that the stabilization package did eventually work, he questions whether the payoff in terms of lower inflation was worth the developmental cost in terms of plummeting industrial output:

> A substantial reduction in the rate of increase of the money supply or of government expenditures would lead to intolerable output and employment consequences as the adjustment process occurred. Yet, urged on by AID and the international lending agencies, the government in the end payed too little attention to the inherent resistance of the Brazilian price level to aggregate economic policies. In 1966, Campos held firm and pursued restrictive policies in all dimensions. . . . [The fact that inflation did eventually fall late in Castello's regime demonstrates that orthodoxy] can apparently ultimately prevail, but only at the expense of serious reductions in economic activity. As capacity utilization declines (if it goes low enough), price mark-ups and thereby inflation can evidently be restrained, economies of scale notwithstanding. The trade-off defined by the price-output equation in 1966-67 is highly unfavorable, however.[24]

The e Silva/Medici Administrations

Though the Castello Branco government had, in its last months of rule, begun a pro-growth policy, the incoming Arthur Costa e Silva government made good on its pledge to radically reorient the state strategy from orthodoxy to developmentalism. After a stroke left this president incapacitated early in his term, a military tribunal selected General Emilio Medici to replace him. Medici carried on his predecessor's policies. On a continuum with democracy on one pole and bureaucratic-authoritarianism on the other, the Medici was as close to the B-A model as Brazil would get.[25] Nevertheless, this truncated regime, despite its authoritarian leanings, was not completely insulated from political pressure. "The new government, albeit a successor military government, . . . demonstrated the same skepticism toward orthodox policies that had been observable under civil regimes. The limited political process of electoral presidential succession had served to catalyze economic discontent and dissatisfaction and to motivate changed economic policies. Different therapy this time produced different results, however."[26]

The most effectual of these policies led to an increase in the money supply. This

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[24]Ibid., 75, 78.

[25]Skidmore, Military Rule.

[26]Fishlow, "Reflections," 73.

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regime also increased wages, the public deficit, and the credit supply to the private sector. These policies accomplished two goals simultaneously: they achieved miracle growth rates of industry and GNP, and they restrained inflation. Ironically, because of the looser monetary policy, wage earners and oligopolized firms were no longer at each others throats in a fight for shares of wealth. Inflation decelerated. In recognition of the Brazilian economy as inherently inflationary, this military regime concluded that "inflationary expectations could be countered by growth better than restraint."[27] Such a recognition represented a basic ideological reorientation of the new administration in comparison to the old.[28] Inflation came down to 20% where it remained throughout the economic miracle. Further, the change in ideology and policy of the military regime was a direct consequence of the diminishing sway the foreign groups held over the state and a reciprocal explosion in the ability of domestic groups to lobby the state.

> [T]he very transition from economic orthodoxy to heterodoxy was a direct consequence of the limited political process of presidential selection in 1967. Three aspects were important. First, choice of a successor . . . posed the question within the military of the desirability of continued economic restraint. Second, the election, albeit indirect and predetermined . . . inevitably invited internal pressure groups to offer their views on economic policies. . . [The] enforced political recess of the Revolution was not therefore the magic formula for guaranteeing the success of stabilization. Rather the limited opening afforded by the political process in 1976 is a highly significant part of the tale. . . . [The policy change resulted from] a diminution of external pressures and greater mobilization of internal opinion.[29]

While the more heterodox policy portfolio was a response to the pressures of domestic social forces and high growth certainly boosted the military regime's popularity with most domestic social forces, the erosion of the military's resolve to implement the policies of orthodoxy may have perversely undermined the ideological cohesiveness of the regime.[30]

A real difference existed between the orthodox Castello Branco regime and the two heterodox regimes that followed. Still, there was a thread of ideological continuity in

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[27]Ibid., 82.

[28]Ibid., 81.

[29]Ibid., 82-83.

[30]Serra, "Mistaken Premises," 142.

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that all these regimes included the following aspects in their policies. The first was stabilization of the economy by reducing the government deficit. This was accomplished by a combination of reducing government consumption and increasing its revenues. An important part of increasing revenues was an increased tax collection which some claim could not have been accomplished without a B-A regime.[31] While government consumption was cut back, "[g]overnment investment expenditures were never cut back during the vigorous stabilization years after 1964, as existing infrastructure projects were continued."[32] The rise of state enterprise was also a counterpart of high government investment.

Another of the institutional changes in the 1960s and early 1970s was the rapid development of the capital markets.[33] These included indexing, a capital market law, and forced savings. Indexing, which was a mechanism that allowed Brazil to live with inflation, had been in effect in Brazil in the 1950s, but it was not until after 1964 that its use became widespread. While the indexing system allowed Brazil to live with high inflation, this system was flawed in that the government was not able to keep politics out of the implementation of this strategy. Indexing, consequently, came to be used for political ends which were often not conducive to maximizing development.[34] A capital market law in 1965 also strengthened the system of financial markets because it "provided an institutional setting for strengthening and increasing the use of the stock market and encouraged the establishment of investment banks to underwrite new issues."[35] A number of forced savings institutions were set up by post-1964 governments to encourage a higher savings rate.[36] The creation and expansion of the National Housing Bank (BHN) became a major initiative in this area. Though ostensibly committed to residential construction, it

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[31]Skidmore, "Economic Policy Making," 22.

[32]Baer, Brazilian Economy, 79.

[33]Ibid. 90, 92-93; Fishlow, "Reflections," 79, 82, 98.

[34]See Baer, Brazilian Economy, 92-93.

[35]Fishlow, "Reflections," 79.

[36]Ibid., provides statistics on increased savings.

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"is also important as a source of savings and a determinant for investment."[37]

Early military governments also adopted a rather consistent stance on foreign trade. This orientation contrasted sharply with the former, democratic governments. "The rapid growth and diversification of exports was deemed essential to the health and long-term recovery of the Brazilian economy."[38] This was accomplished primarily by frequent minidevaluations of the exchange rate and the introduction of state subsidies to export. This last reform included rebates on loan interest rates and tax reductions. In addition, the abolition of state export taxes and the reduction of the amount of "red tape" through which exporters had previously been required to wade also contributed to better export performance. The rise in exports, especially manufactured exports, had a number of positive outcomes for Brazil.[39]

Despite the fact that Brazil had made major accomplishments in export expansion during the first period of military rulership, the prospects for future export expansion were hardly so bright. The Achilles' heel of export expansion in Brazil was the tendency for the state to allow the exchange rate to become too overvalued. This tendency, however, did not matter "inasmuch as export incentives (tax incentives and subsidized credits) more than compensated for the overvaluation."[40] By the mid-1970s, export competitiveness was threatened because overvaluation had reached an extent that it had overwhelmed the export incentives.

Finally, foreign capital became increasingly important over the course of the 1960s

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[37]Ibid., 98.

[38]Ibid., 80.

[39]For an enumeration of these positive aspects see Fishlow, "Reflections," 102. For statistics on the diversification and expansion of Brazilian exports see Baer, Brazilian Economy, 84. While the Korean story of expansion is quite well known, the Brazilian saga of such expansion is less well known A good summary of Brazilian state's attempts to encourage MNCs to export is seen in Gary Gereffi and Peter Evans, "Transnational Corporations, Dependent Development, and State Policy in the Semiperiphery: A Comparison of Brazil and Mexico," in Latin America's Economic Development: Institutionalist and Structuralist Perspectives, eds. James L. Dietz and James H. Street (Boulder: Lynne Rienner Publishers, 1987), 168-70, 176-180; and Eva Paus, "The Political Economy of Manufactured Export Growth: Argentina and Brazil in the 1970s." The Journal of Developing Areas 23, 2 (1989): 173-200. State firms, at least in mining, have also contributed to export orientation of Brazil. For this, see Hewlett, "State," 154-55.

[40]Baer, Brazilian Economy, 93.

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and early 1970s.[41] While the increase in FDI was large, the expansion of foreign loans was exponential. While FDI may have facilitated economic growth and some technology transfer, there is considerable reason to believe that the more intense exploitation of local capital resources under state micro-interventions may have maximized national development. There is also reason to believe that the state should have monitored more closely the expansion and the terms by which foreign debt was acquired in that a severe debt crisis in 1979 would constrain Brazilian development for years afterward.

There is no denying the many strengths of the model described above. However, there were also weaknesses. The cyclical interpretation of Brazilian growth is one of those weaknesses. Cyclical interruptions in growth are by no means an exclusively Brazilian phenomenon. All capitalist economies experience such cycles, but the highly import substitutive nature of the Brazilian economy has made the deleterious effects of such cycles amplified in the Brazilian context. An impartial review of Brazilian history reveals a pronounced cyclical pattern of growth and decline.

There are three factors associated with Brazil's vulnerability to interruptions in growth as well as its predisposition to cyclical spurts of growth in this time frame. First, much more concentrated investments are required of late developing countries to enter the import substitutive areas of heavy, chemical, and high technology than those of prior industrializations. After such investments diminish, there is normally a period of contraction. Second, the "bunched process" of secondary ISI, whereby many new sectors are activated simultaneously through extensive government incentives and support, led to an extreme degree of economic integration. This means when one sector of the economy experiences trouble, general economic crisis results.

Third, in Brazil's import substitutive economy, the responsiveness of resource allocation to new price signals is not only more muted, but government policy is likely to be less accurate. The successful resolution of both these factors tends to make cyclical interruptions less lengthy and less pronounced. This is because "[a]ccompanying inflation and balance of payments problems mask the problem [of cyclical interruption] until too late, and aggregate policies are more likely to emerge than those directed toward

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[41]For statistics see ibid., 84.

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rectifying sectoral imbalances and rigidities."[42] Because of these three factors "[i]n Brazil, this [cyclical] model seems to have been played out to its fullest."[43]

With orthodox macroeconomic policy, the recession generally follows and stability is not achieved. The classic policy response to the recession is to promote resumed growth through developmentalist macroeconomic policies. At this point, the "worst of all worlds was experienced--continually slowing growth, progressively higher inflation, and an insoluble balance of payments deficit."[44] A consistent policy portfolio with slightly expansionary monetary policy in combination with plentiful microlevel interventions to ease and definitively shape the form of adjustment of firms and sectors to the new economic conditions is a sound policy response. Even though Brazil only implemented half of this equation, its economy recovered remarkably: "an expansive and consistent monetary policy, properly implemented, could yield increases in real product without proportional consequences upon prices. Ultimately, such a course was pursued in 1967 and contributed to the initiation of a recovery [that continued until 1973]."[45]

Having discussed the vulnerability associated with the Brazilian economic model (economic downturns), it is appropriate at this time to discuss the fact that, in 1973-74, the Brazilian economy was showing signs that such a downturn was eminent. First, continued economic expansion was threatened because Brazil lacked adequate savings to finance future capacity-augmenting investments. Such investment funds can come either from reducing consumption and channeling savings into investment, from increasing export earnings, or from increasing foreign savings (through FDI or debt). Brazil already had a large contingent of foreign firms and debt. Likewise, Brazil made some progress in reducing consumption and increasing savings through forced savings programs. Some efforts were made and some progress was made at increasing diversified exports. However, the Brazilian state (even in it's B-A condition) was not powerful enough to

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[42]Fishlow. "Reflections." 105.

[43]Ibid.

[44]Ibid., 106.

[45]Ibid.

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force drastic expansion of industrial exports as Korea had done years before. The Geisel administration had set a target of a 10% growth rate which implied a 4 percentage point increase in the rate of savings. However, this increase in the rate of savings would have "conflicted with the incentives to consumption of consumer durables that had been a prominent feature of the miracle years."[46] Thus, a high rate of savings rate in the context of a secondary ISI economy represented two horns of a dilemma contained in Brazil's development strategy. Furthermore, considering the capital drain of the higher import bill and the rate of inflation, an increased savings rate would be hard to obtain in the future.

Another weakness of the economic model was its tendency to rely on a political calculus rather than a technocratic calculus. Instead of utilizing excess capacity in the domestic capital goods sector, the Brazilian state buckled to pressures in the consumer durable goods sector (composed mostly of foreign firms) and gave incentives for the importation of capital goods.[47] The state bias in favor of the consumer durables industry was complemented by an income distribution which was also conducive to an economy with consumer durables as its leading sector. Baer contends that "increased investment in a society with concentrated incomes produces a production capacity profile that is unlikely to be adequate for a more egalitarian society."[48] Furthermore, since Brazil's ISI economy was driven by domestic consumption, the state contributes to such consumption patterns by providing cheap credit for consumers to purchase such products. MNCs are credited with much of the complementary issues of income concentration, using inappropriate technology, and skewing consumption patterns through advertising which distorted production profiles. Stunting the domestic capital goods sector by intensive imports of such goods was an error, especially when domestic capacity existed.[49]

The nature of industrialization, itself, was the last sign that the economic miracle

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[46]Fishlow, "Tale," 87.

[47]Apparently, Brazil has had a long history with political pressures from MNCs for importation of capital goods rather than domestic purchase. For this phenomenon in the Kubitchek years, see Baer, "Political Determinants," 57. For the continuation of such pressure into the military regime, see Serra, "Mistaken Premises," 131, 133-34.

[48]Baer, Brazilian Economy, 90.

[49]Serra, "Mistaken Premises," 131.

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was coming to a close. The industrialization that occurred was more of a capital accumulation variety than a modernizing one. "A notable feature of Brazil's growth in the 1950s and the 1960s was the relatively low capital coefficient."[50] Complementing the weakness of a low capital coefficient was the balance of payments problems which stymied importation to increase the capital coefficient. The administration had to deal with the probability that an external resource imbalance and mounting inflationary pressures would develop. This imbalance was created by ISI deepening and the oil crisis. The bleak potential increases in exports worsened the outlook for the external account. The exchange rate had become overvalued and, consequently, discouraged exports.

The oil crisis tended to exacerbate problems of the inadequate savings, low productive capacity, and balance of payments problems. This was because Brazilian wealth would tend to be transferred to oil producing countries and not into savings. This was also because non-oil imports would be squeezed (worsening the balance of payments situation and the ability to expand imports that would increase productive ability). In addition, Brazil's exports would meet tougher markets abroad (worsening the balance of payments situation and reducing the foreign exchange that could go toward increasing Brazil's productive ability).

The above was true for a number of reasons. Brazil imported 80% of its oil. Oil imports more than doubled as a share of total imports between 1973-75. Oil import prices, themselves, quadrupled; oil-intensive manufactured imports also increased in price. Huge increases in the import bill, the trade, and current account deficits occurred between 1973 and 1974.[51] Imported inflation which happened as a result of the oil crisis increased Brazil's rate of inflation. The automobile "was at the center of Brazilian industrialization strategy," and commerce was based on the truck, not the train.[52] Both these facts made cheap fuel imports the foundation upon which further Brazilian development was based. The perverse effects of import substitution in the 1970s (which suggested a rising, not declining import coefficient) partly reflected the rising petroleum import bill, but it also

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[50]Baer, Brazilian Economy, 81.

[51]For statistics see Baer, Brazilian Economy, 96.

[52]Fishlow, "Tale," 87.

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reflected the rising capital goods import bill.[53] If government policies had directed firms toward purchasing capital goods domestically instead of abroad or if policy had emphasized exports sufficiently, the deterioration of the balance of payments situation and the accumulation of debt would not have been so severe. To further explore these and other issues, the next period of military rule must be examined.

INDUSTRIALIZATION DURING THE SECOND PERIOD OF MILITARY RULE (1974-1984)

The Geisel Administration

As the Brazilian economic miracle came to a close, a new government--the Geisel administration (1974-1979)--assumed power. As described above, the "new administration inherited from the outgoing Medici government a miracle that was already showing disturbing signs of mortality."[54] These signs of mortality consisted of an inadequate savings rate and balance of payments problems in the context of a need to expand productive capacity. Unfortunately, the mortality of this model was sealed by the oil crisis which occurred scarcely four months before the presidential change. In sum, this crisis had a number of profound implications for the Brazilian economy.

The oil crisis also made the political tasks of the Geisel government more difficult. A stabilization and consequent decisive rationalization of Brazilian income would have been politically unpopular for most sectors. Since "the incoming administration of President Ernesto Geisel set goals that it considered politically imperative," the state avoided such rationalization.[55] Instead of a rationalization, the Geisel regime embarked on a politically popular pro-growth deepening strategy. The adoption of this strategy was related to "political considerations and responses of domestic groups. . . . Policies were

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[53]Hewlett suggests that MNCs may have contributed to the balance of payments deficit: "It seems difficult to account for the dramatic price escalation [of imports] by merely citing the U.S. domestic rate of inflation that hovered around the 11 percent mark. Is it possible that. . . multinationals compensated for some of their global problems by transfer pricing and artificially increasing the cost of their imports into Brazil?" See Hewlett, "State," 187.

[54]Fishlow, "Tale," 86.

[55]Baer, Brazilian Economy, 97.

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forged not in a technocratic vacuum. . . . Indeed, the conscious objective of the Geisel government was to channel popular reaction, through its program of relaxation of repression, *distensao*."[56] Also, the military state's pride in its past accomplishments and its confidence in Brazil and its potential played a role in the decision to pursue deepening. Such confidence is related to the *grandenza* convention.[57]

On the economic side, the need to increase productive capacity at this juncture contributed to this decision. Additionally, there was a fact that made imports easier to acquire despite import constraints and deteriorating terms of trade. First, Brazil's decision to pursue the deepening strategy through export expansion and foreign debt was resolved by a glutted international credit market which also resolved Brazil's balance of payments problems. Second, Brazil endorsed a policy of overvaluation which not only made "essential" imports cheaper but also made foreign debt easier to repay.

Considering these economic and political influences, the state opted for a new development strategy. "Although some might have thought that the economic logic of the oil price revolution called for a substantial net transfer of resources to the oil-exporting countries, . . . [the Geisel government] hoped to pay Brazil's higher oil bills by growing . . . . Growth via debt was justified on the grounds that future savings of foreign exchange resulting from the investment programs . . . would ultimately bring about a situation in which Brazil could produce trade surpluses large enough to service and repay its international debt."[58] On the positive side, the ISI policies had beneficial developmental consequences, such as high growth, even as the world was locked in recession and significant industrial modernization.[59] Many academics of the time praised Brazil's accomplishments.[60] However, such sentiments were the seeds of inertial inflation, huge

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[56]Fishlow. "Tale." 89.

[57]For more on this. see ibid., 83. 86 and de Castro. Renegade Development. The latter contends that Brazil lost its grandenza convention at the end of the 1970s.

[58]Baer. Brazilian Economy, 97. 100-101

[59] Fishlow. "Tale." 88.

[60]What is amazing is that at least one scholar actually predicted the debt crisis even as Brazil and other developing countries were still reaping the rewards of debt-led deepening. See Richard Cooper. "Comment." in International Economic Policy: Theory and Evidence, eds. Rudiger Dornbusch and Jacob A.

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deficits in external accounts which precipitated the debt crisis, and an IMF stabilization plan which ushered in recession.

The policies of the Geisel government from mid-1976 on have been characterized as "stop and go."[61] This is because they have vacillated between stabilization policies (which are intended to slow inflation but also compromise growth) and developmentalist policies (which are intended to promote growth but are commonly accompanied by inflation). This conceptualization of developmental choices created a false dilemma in the minds of Brazilian policymakers who saw their choices as stability with recession or instability with growth. Ironically, Brazil may have been using the wrong tools to control inflation. Microeconomic and macroeconomic tools may be necessary to deal with inflation which arises in the context of large conglomerations of economic power. The most effective tools Brazil had in its command, however, were macroeconomic tools; and these were the less powerful of the two. With effective microeconomic tools arrayed in favor of growth and providing a break on inflation, Brazil might have been able to control inflation and grow simultaneously.

The high rate of inflation constituted a major obstacle to healthy economic development in Brazil. Its rate ran concomitant with the Geisel strategy, the post-oil crisis international environment, and the "fight for shares" domestic inflation that existed in Brazil. While Baer seems much more orthodox than Fishlow in his prescriptions for policies to control inflation, both Baer and Fishlow cite structural reasons, as opposed to orthodox explanations, for the causes of Brazilian inflation.[62] Baer concludes "that the structuralist explanations of Brazil's inflationary resurgence come closer to the roots of the problem than those of the orthodox school. The latter deal more with the symptoms than

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Frenkel (Baltimore: Johns Hopkins University Press 1979), 325.

[61] To some extent, the "stop and go" policies were also reflected in the successor government's policies, though the "gos" were rather more sluggish and the "stops" carried greater recessionary consequences.

[62]Baer, Brazilian Economy, 80 writes that the reason that the stabilization policies were ineffective at restoring the basis for growth before 1968 was "the time lag involved before the effects of the . . . reforms . . . could be felt." Fishlow, "Reflections," 106, alternatively, believes that the change in policies between the Castello Branco and subsequent regimes in Brazil was that the former relied too heavily on stabilization policies while the latter demonstrated that "an expansive and consistent monetary policy properly implemented could yield increases in real product without proportional consequences in prices."

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the basic causes of the inflationary process."[63]

Structuralists believe that Brazilian inflation is caused by a labor elite and oligopolistic firms which were allowed to raise their own rents at will. The "fight for shares" between different economic sectors is called inertial inflation. If such an analysis is correct, one can readily see where microeconomic discipline of actors could result in lower inflation. The difference of discipline explains why Brazil and Korea had different inflationary experiences even though they both had highly concentrated market structures.

While the dominant thrust of Geisel's economic policy was deepening, the policy went through three phases. In 1974, the Geisel administration embarked on an orthodox monetary and fiscal policy designed to cool the overheated economy and lessen the excess demand inherited from the previous regime. The plan envisioned "a modest corrective that did not compromise . . . the attainment of high growth in the new international environment, while maintaining external and internal equilibrium."[64]

This failure of the orthodox policy was assured by both economic and political conditions. Economically, the corrective inflation endorsed by this policy regime was apt to be severe considering deregulation of the extensively administered price controls that had been necessary to constrain the excess liquidity inflation during the miracle years. Aside from deregulation, increases in the oil price had resulted in generally higher import prices in most goods. This imported inflation, even when partially ameliorated by government subsidy, was not only passed along by Brazilian firms; but, in some cases, it was anticipated. Thus, the austerity program achieved few successes in the short term.

The political scene was not conducive to a lengthy duration of austerity. ARENA, the government party, had just suffered a major defeat at the polls which had left the puzzled military seeking popular approval. "Moments of political uncertainty, and they abounded in early 1975, were not the ones to impose unpopular and conventional austerity policies. Rather, there was great temptation to demonstrate a singular Brazilian capacity to overcome what other countries, and other regimes, could not manage. Brazil was to be

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[63]Baer, Brazilian Economy, 158. For this full argument and supporting statistics, see chapter 5.

[64]Fishlow, "Tale," 89.

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an 'isle of tranquility' in the midst of international economic turbulence."[65] Ironically, while the deepening may have helped to pacify domestic dissent, it undermined the internal cohesiveness of the military regime, which had come to power to implement orthodoxy.[66]

To understand the growth components, which were particularly pronounced in the second phase of this regime's economic policy but which are also apparent in the third such phase, it is helpful to know something about the Second National Development Plan (PND II, 1975-1979).[67] The three goals of this plan were to promote the rapid expansion of capital goods, intermediate industrial goods (such as basic metals, fertilizer, and petrochemicals), and economic infrastructure (nuclear and hydroelectric power, alcohol production, communications, and transportation). "Many of these investments were undertaken by state enterprises (in such fields as energy, steel, and economic infrastructure), while others (especially capital goods) were carried out by the private sector with massive support from the development bank (BNDES)."[68]

Presently, the macroeconomic aspects of this phase will be discussed. Monetary and fiscal restraint eased and treasury deficits increased. To support its political agenda and to encourage growth within the ISI economy, the regime granted a 10% wage bonus; and a different wage formula meant that wages would now keep pace with inflation. "Complementing this rationale [for high growth rates] was the fact that easing wage repression would be easier within the context of an expanding economy."[69] The state's policy now supported "a more aggressive medium term development strategy designed to accomplish the dual objective of sustaining high rates of growth while promoting adjustment to the oil shock."[70] The state could pursue this potentially inflationary wage policy because the *indexing system* could be used to control the worst of inflation, and it could

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[65]Ibid., 90.

[66]Serra, "Mistaken Premises," 142.

[67]Baer, Economic Development, 97, 100.

[68]Ibid., 100. BNDES stands of the National Bank of Economic Development.

[69]Ibid., 97.

[70]Fishlow, "Tale," 88.

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pursue this pro-growth policy because the existence of *cheap international credit* from recycled petrodollars were widely available on the world market.[71] However, the indexing of wages and prices, ironically, may have triggered a chain reaction of inflation because the Brazilian state was not strong enough to make sectors absorb price shocks. These price shocks included some natural disasters, the quintupling of the oil price in 1973-74 and its doubling in 1979, the steep devaluations in 1979 and 1983, and the drastic rise in the interest rate in the 1980s. "Of course, these price shocks would not be inflationary as such if the sectors that are directly involved are willing to absorb them. If, however, . . . the sectors are able to pass the price shocks onto their customers . . . and if those customers, in turn, are in a position to pass on such higher prices, then the shocks will have started a chai of price increases that will affect the general price level."[72]

Foreign debt quadrupled between 1967 and 1973 and quadrupled again between 1973 and 1979. The difference between the borrowing during the miracle years and the borrowing after the first debt crisis was that earlier borrowing was split between internal resources that financed investment and external resources that financed increases in external reserves. Debt, after 1973, increased because of the huge increase in the trade deficit and much larger interest and service payments. The trade deficit resulted from the oil crisis and the deepening strategy. Much of the debt was acquired by the public sector which figured heavily in the deepening strategy and took advantage of extreme petrodollar liquidity in international financial markets. "[R]ecycling of petrodollars had begun in earnest, and Brazil was not only an eligible recipient but an attractive target."[73]

There are a number of reasons why the Brazilian state facilitated such a huge expansion of international debt. First, such debt dampened inflationary pressures which were inherent in the aftermath of the oil crisis. Second, the state used international debt to support high rates of fixed investment by providing firms, especially capital goods firms, with a plentiful supply of relatively cheap imports of intermediate inputs and capital goods.

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[71]For statistics on the growth of foreign debt and inflation .see ibid., 91 and 90, respectively, and Baer, Brazilian Economy, 101-102, 106 and 142-145, respectively.

[72]Ibid., 140-141.

[73]Fishlow, "Tale," 91.

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Third, the problem of resolving the dilemma between inadequate domestic savings for expanding industrial capacity had now been solved by the rapid increase of foreign debt and the consequent rapid increase of foreign savings.[74]

Heterodoxy more than orthodoxy influenced the shape of the development coalition and the developmental direction. "Those who believe that post-1964 Brazil had been converted to the magic of the market or to outward-oriented growth were quite mistaken."[75] Only the Castello Branco administration had rather strong faith in the free market. But successive administrations lost faith in orthodoxy and began implementing heterodox growth policies with largely positive results.

However, Brazil's heterodox approach was far from perfect. While state elites argue that debt-led growth was preferable since the eventual stagnation that came in 1981 was much shorter in duration than a preemptive stagnation would have been, the first flaw in the heterodox plan was that debt-led growth may have been too rapid in the context of the oil crisis. An alternative policy of slower growth may have been preferable for Brazil at this time.

> Suppose, for instance, that the yearly real growth rate in the 1973-81 period had been 4 percent instead of 5.6 percent. Then, beginning with a base year GDP of 183 billion in 1973, the GDP would have been US$ 250 instead of US$ 285 billion in 1981 (all calculated in current dollars). A total repayment of the debt with the actual GDP attained in 1981 (US$ 61 billion) would have left a sum of US$ 224 billion; the per capita income would have risen, under these circumstances, from US$ 1,827 in 1973 to only US$ 1,836. Suppose that, with the more modest GDP growth, the ratio of foreign debt to GDP in 1981 remained the same as that in 1973, 6.8 percent instead of the actual 21.5 percent. Under these circumstances the total foreign debt would have grown to only US$ 17 billion; subtracting that from the US$ 250 billion of GDP attained by the lower growth rate, the country would have been left with US$ 233 billion and a per capita income of US$ 1,910.[76]

The second flaw in the heterodox approach was that it placed undue faith in the short-term ability of the new round of secondary ISI to equilibrate the trade deficits. There was little available capacity to exploit at this time, which meant that ISI would

[74]For statistics which support this contention, see Baer, Brazilian Economy, 105.

[75]Fishlow, "Tale," 92.

[76]Baer, Brazilian Economy, 106-107.

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necessarily be import intensive.[77] Also, the state paid too little attention to export promotion. Despite the fact that the gates to world trade were closing at this time, Brazil could have done more to exploit its favorable terms of trade. Limiting imports would have also helped and would have served to complement a slower growth strategy as well.

The third problem with the new import substitution strategy was that it was too unfocused. Specific sectors need to be targeted for expansion if import substitution is to reach maximum efficiency. Costly projects (the steel, alcohol, and nuclear programs, in particular) were undertaken, which had spurious benefits. "Since such programs had a large import content, a more modest growth without these projects (or with those projects on a more reduced scale) might have brought the rate of growth of indebtedness down."[78] In addition, "projects were not vetted by careful analysis of benefits and costs, and certainly not by market forces. A simple appeal to import savings seemed to suffice."[79] In other words, the range of industries within the categories of intermediate and capital goods was too broad. "[It is] clear that a steady, and early, combination of efforts, rather than one grand alternative was necessary to counter the more hostile external environment. . . . Instead, Brazil had been late to react and had then gambled on an ambitious plan of import substitution."[80] With the single grand alternative (ISI deepening), the state forestalled major reforms and undertook only weak reforms in the areas of export promotion, a devalued exchange rate, restrictions on imports, and slower growth. Decisive reforms in these areas would have made Brazil much less vulnerable to its balance of payments problems and less dependent on debt, but such action would have also required state leadership to determine which members of the private sector would be required to make which sacrifice. Such leadership was not to be found in a pre-*abertura* government trying to please multiple social groups.[81]

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[77]Fishlow, "Tale," 95.

[78]Baer, Brazilian Economy, 107. Also see Fishlow, "Tale," 95 for more on this subject.

[79]Ibid., 95.

[80]Ibid., 100.

[81]Ibid., 99-101.

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The last major flaw was that the public sector played a major role in this deepening phase. This flaw had two dimensions. First, the local private sector resented the intrusion of public firms into economic space that they felt would be allocated to local capitalists. Second, the state enterprises did not turn out to be as solvent as originally envisioned. This was because the public sector expansion "entailed increasing deficit finance and came to rely on external resources. The state became larger but also economically weaker."[82] These two problems were complementary in that pacifying the private sector weakened the state financially since government used subsidy and price discounts on public goods to pacify a hostile private sector. The submission of the state to the private meant that the Brazilian state was not operating from a position of strength.[83]

The third phase of policy which lasted from mid-1976 to the end of the Geisel regime has been characterized as one of "mild restraint."[84] This strategy engendered a stop-and-go macroeconomic policy that intended to keep these imbalances at least manageable while supporting growth. Foreign loan capital continued to make growth possible even in the context of mild stabilization.

The economic policy featured orthodox interest rate and monetary policy. The state employed high interest rates for two reasons. First, the government wanted to discourage debt-financed consumption. The Central Bank particularly discriminated against loans for consumer durables and housing. Conversely, the government wished to raise domestic rates of real savings. Second, the state wished to encourage the consumption of external debt. "This would at the same time help to alleviate interest inspired inflationary pressures while closing the balance of payments deficit through capital inflow."[85] Monetary stringency was aimed at controlling inflation as well. Growth and inflation slowed.

Nevertheless, there were problems with the stabilization approach that emphasized

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[82]Ibid., 94. For statistics on the increase of public debt see Baer, Brazilian Economy, 105.

[83]Fishlow, "Tale." 96.

[84]Ibid., 97.

[85]Ibid.

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high interest rate and monetary stringency. These problems comprised both internal and external economic spheres: the economic problem domestically was inflation, which originated from four sources. First, despite monetary stringency, capital inflows were absorbed into the monetary base as commercial bank deposits. This resulted in large increases in real liquidity for 1977 and 1978 and, consequently, rapid inflation.

Second, the magnitude of total subsidies (around %5 of GDP in the late 1970s) became burdensome. The coexistence of low and high interest rates "became a destabilizing, expansionary force on the monetary base . . . [and] contributed to an increasing segmentation of capital markets."[86] Tax subsidies reduced revenue and credit subsidies depleted federal reserves. In addition, the state underwrote large investments by public industry. The state was being bled of resources from two directions, public and private firms. These factors contributed to the public deficit which also contributed to inflation.

Third, Brazil experienced problems with the system of indexing. In the presence of a weak state, the indexing system no longer controlled inflation but contributed to it: "political changes that began with the Geisel administration . . . explain the decision to opt for growth with debt. The same forces also explain the resurgence of inflation. . . . Once the 'fight for shares' took hold, the economy became increasingly indexed, which meant that the inflationary mechanism became increasingly dominant. . . . [This was because the] price control agency was lenient in allowing energy and labor increases to be passed on to product prices."[87] The runaway inflation that Brazil began to experience at this time marks a significant difference with Korea's 1970s' deepening. While the autonomous Korean state was a master of manipulating prices in line with the dimensions of its development strategy, the semi-autonomous Brazilian state lost a handle on price control.

> The Brazilian system of indexing was now working to the disadvantage of policy-makers. It had helped in promoting deceleration of inflation so long as it had been manipulated to reduce real wages and when supply side shocks exerted a positive force. Now as civil society was increasingly voicing its demands, real wages could no longer be determined as residual income shares. Instead, controls proliferated at the expense of priorities. As the absolute level of subsidies increased, sectors and interests sought to defend entrenched positions. Pure market considerations

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[86]Ibid.

[87]Baer, Brazilian Economy, 111, 141, 155-156.

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were never further from being decisive in allocation of resources. Relative price changes had to be minimized to avoid new inflationary impulses.[88]

On the external side of the equation, there were problems as well. True, Brazil increased its exports from 1974-1978 and, with the help of a higher coffee price, achieved a small trade surplus in 1977. Nevertheless, the balance of payments situation, because of a number of factors (the large foreign debt and insufficient attention to increasing exports being the chief among these) had become exceedingly precarious. "Brazil during these years was clearly becoming more vulnerable as its integration into the world economy was progressively more asymmetric: its share of debt far exceeded its share of trade. Were export growth not to manage to keep up, or rigid control over imports to be breached, or the larger debt to give rise to more costly interest remittances, or supply conditions to prove less favorable, the balance of payments constraint that overhung like a sword of Damocles could easily become operative."[89]

In the wake of the first oil crisis, the main thrusts of Geisel's economic policies, as seen through the second and third pro-growth phases, were threefold. First, despite the failure to promote a rate of economic growth comparable to that of the miracle years, this regime did achieve a rather high industrial and GNP growth rate.[90] Second, the Geisel policy resulted in a mounting foreign debt to pay for public sector investments, especially investments in imports of foreign equipment and intermediate goods. This resulted in a trade deficit.[91] Third, the Brazilian state promoted a policy of accepting high rates of inflation as a counterpart to the growth strategy while curbing price increases through indexing. However, it tolerated high inflation because the elimination of such inflation would have entailed a full adjustment strategy. The Brazilian state did not have the strength to pursue debt-led growth in a non-inflationary way.[92]

The policies of debt-led growth, guided by a structuralist paradigm, created a

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[88]Fishlow, "Tale," 98.

[89]Ibid., 99.

[90]Baer, Brazilian Economy, 100.

[91]For statistics on this see ibid., 115.

[92]Fishlow, "Tale," 96.

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particular type of state alliance to different social groups. With all the rhetoric about the favored entity of state policy being the domestic private sector, this objective was contrary to reality. "State enterprises became the standard form of productive engagement in new sectors, frequently in association with foreign capital."[93] The alliance structure changed perceptibly but not fundamentally from previous regimes: state firms became the focal point of policy, the local firms were again passed over, and foreign capital's influence diminished in proportion to the gain of state firms. This debt-led growth would eventually bring an end to the alliance that formed around the debt-led deepening of the 1970s and catapult the foreign banks (through the auspices of the IMF) into a more intimate relationship with the state than they ever had before. This established the same kind of relationship that had been in effect in the 1960s.

The Figueiredo Administration

In March 1979, Joao Batista Figueiredo, the last military president, took office. In its will to economic problems and to achieve high growth rates, this regime had much in common with the predecessor governments. Figueiredo's "political program was to re-store Brazil to a completely democratic regime and to hand over the administration to a civilian. These political aims were tested by economic crises . This regime was soon confronted with the dilemma of how to cope with the conflicting goals of confronting the rising rate of inflation . . . , dealing with a foreign debt whose servicing . . . was already taking up two-thirds of export earnings, and keeping the growth rate from stagnating."[94]

The early Figueiredo administration called for free market reforms and made policy instruments more efficacious in producing economic results. These dramatic reforms were facilitated by granting the finance minister greater power. The new economic policy included the following characteristics.[95] First, the state would reduce the amount of subsidized credit and would compensate the private sector for this reduction by explicitly increasing fiscal transfers. Thus, the inflationary effects of the previously segmented

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[93]Ibid., 95.

[94]Baer, Brazilian Economy, 107.

[95]These come from Fishlow, "Tale" 89-91.

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capital markets were eliminated. Second, the Finance Minister sought to restrain public expenditures, particularly those of state enterprises which had historically been hard to control. Third, import restrictions were to be modestly liberalized, a series of mini-devaluations were to be scheduled, and export subsidies were to be removed. But such measures were not without costs: "The removal of tax incentives and subsidized credit for exporters . . . called for a stepped-up devaluation as a compensating measure. The problem, of course, was that greater devaluation would increase inflationary pressures and would substantially increase financial burdens on firms with foreign debts."[96] Finally, slower growth was accepted to allow economic agents to finally adjust to the oil crisis.

Even before the petroleum price revolution, a chorus of complaints about the plan soon sprang from the public and private spheres.[97] In the public sector, new ministers were eager to spend, not curtail expenditure, and state enterprises began to chafe at the new controls being placed on them. In the private sector, a number of groups voiced complaints. Industrialists, who were already experiencing difficulty, resented the further squeeze on their profits. Private banks complained about the entrance of the Bank of Brazil into direct competition with them as the gap in interest rates narrowed. The agricultural groups begged for abundant, subsidized credit in view of the poor harvests. Finally, workers experienced a shrinking share of national wealth as inflation intervened between the annual indexed adjustments and eroded real wages. The last B-A government, if it were to keep its commitment to *abertura*, could not completely close off the means of political expression as it once had.

In June, 1979, the second oil crisis struck. The oil crisis hurt Brazil's economic situation in a number of ways. First, the oil crisis hurt its balance of payments situation in at least three respects. It increased the price of oil imports, precipitated a rise in world interest rates which hurt Brazil's foreign debt situation, and helped to deteriorate Brazil's terms of trade. As previously described, Brazil was particularly dependent on cheap oil. Between 1974 and 1977, imports actually declined marginally. But in large measure,

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[96]Baer, Brazilian Economy, 108.

[97]Fishlow, "Tale," 101-102.

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owing to the oil crisis, the price of Brazil's import bill by 1980 had nearly doubled.[98] In addition, poor food harvests in 1978 and 1979 exacerbated inflation and required imports of staple foods. Brazil was no less dependent on low international interest rates (Brazil had acquired 70% of its foreign debt in variable interest rates).[99] The tremendous growth of debt (in 1979 debt was 21% of GNP) in the context of less than spectacular growth of diversified exports and an explosion of imports created a situation where debt service rose to 63% of exports. Finally, the oil crisis contributed to a precipitous downturn in Brazil's terms of trade, which had begun to fall a year before. Such a turn of events meant that Brazil would either have to adjust through a tremendous economic slowdown (and import restrictions) or increase production and exports to the point that its obligations were not so burdensome. However, such state coercion of economic units had never been seen before in Brazil, and an economic slowdown made debt harder to retire.

Second, the oil crisis also contributed to inflation. Domestic producers used the higher price of oil and credit (as well as the devaluation and higher wage law) as a reason to pass higher production costs on to the consumer. The maxi-devaluation and the new wage law also represented higher production costs which were passed on as inflation. Because the government was not strong enough to demand that sectors absorb these higher prices, Brazil's most serious instance of inertial inflation was ignited. The second oil crisis thus confounded the problem of adjustment to the first oil crisis that had eluded definitive resolution by the previous regime.

By August, five months after the new reform-minded administration took over and only two months after the oil crisis, the policies of stabilization and marketization were reversed. This reversal was symbolized by the change in the Finance Minister. Mario Simonson resigned and Antonio Delfim Netto entered the position of Finance Minister. In terms of these men's economic policy styles, there could hardly have been more contrast. While Simonson was a top level technocrat during the deepening and the stabilization/ marketization periods, Delfim had been Finance Minister during the miracle years.

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[98]For these statistics, see Ibid., 98-99.

[99]Regis Bonelli and Pedro S. Malan, "Industrialization, Economic Growth, and Balance of Payments, 1970-1984" in State and Society in Brazil: Continuity and Change, eds. John D. Wirth, Edson de Oliveira Nunes, and Thomas E. Bogenschild (Boulder: Westview Press, 1987), 23.

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Contrasting with societal response to Simonson's policy, Delfim's initial policies enjoyed much political support. "Delfim promised a supply side approach that would make demand restraint unnecessary. That was sweet music to an administration pledged to validating wider popular political participation. . . . Delfim . . . was greeted by national euphoria and confidence in his capacity to save the day. In reality, he could have hardly selected a more unpropitious moment to return."[100]

The first phase of Delfim's heterodox policy was primarily developmentalist in character, but it could not help but try to deal with the looming foreign debt, balance of payments deficits, and the inflationary impulse. To rectify external accounts, the policy emphasized agricultural exports and exchange rate devaluation. The state instituted a maxi-devaluation of 30%. This devaluation eliminated the need for export subsidies and prior deposits on imports. In fact, it eliminated the need for the import barriers inherent in the Law of Similars, which was abolished. The irony was that, while this maxi-devaluation may have helped export competitiveness, it added substantially to inflationary pressures and made Brazil's large foreign debt harder to repay.

On the developmentalist side, the policy offered low interest rates, wage rate increases, deficit financing, and incentives for acquiring new foreign debt. The agricultural and energy sectors "were assured all the subsidized credit they wanted."[101] Meanwhile, the industrial sector had little choice but to acquire new foreign debt, particularly after 1980 when credit expansion was limited to 45%. The wage law of October 30, 1979, which was initiated under the previous policy phase, set the pace for wage policy in the 1980-82 period. This law was designed to make Brazil's wage structure more egalitarian since the lowest paid incurred wage increases relative to inflation while the highest paid experienced wage decreases. "Since, however, the price control agency was lenient in allowing energy and labor cost increases to be passed on to product prices, the resulting inflationary conditions substantially diluted the real wage increases of the lower income groups."[102] Even if wage increases did not directly propagate high inflation, they made

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[100]Fishlow. "Tale." 102. Also see de Castro, "Renegade Development." 202.

[101]Fishlow. "Tale." 102.

[102]Baer. Brazilian Economy, 111.

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high inflation difficult to roll back.

Delfim's first policy period also was supposed to enhance marketization and control inflation. Several policies were introduced in early 1980 which tended to focus on the reduction of inflation. Indexation was seen as the cause of inflation so the economy was de-indexed. A novel anti-inflationary device was used: the announcement that indexation adjustment would not exceed 40% and the announcement that monetary expansion, credit expansion, and exchange rate devaluation would not exceed 45%. It was believed that if economic units could depend on a certain rate of inflation, inflationary expectations and inflation itself could be tempered. Rationed credit meant that the Brazilian government became more directly involved in credit allocation. These measures did not restrain inflation within the set parameters. Inflation during these months exceeded 100%. Pre-announcing the exchange rate was intended to encourage firms to borrow abroad since devaluation could discourage such borrowing by making it more expensive. However, exports became dangerously overvalued as the government temporarily stuck to its 45% increase limitation.

This hodgepodge of policies was far from what the Brazilian economy needed at this juncture. Fishlow describes a number of reasons Delfim's heterodoxy failed.[103] First, the economy was already suffering from excess demand with substantial capacity utilization which meant that increasing demand would only result in higher costs. This resulted from deficit financing, which was intended to increase demand but translated into inflation being that supply was inelastic. Conversely,, scarce finance in the tightly controlled financial markets also resulted in inflation. Second, while the shift of the wage adjustments from annual to semi-annual increments may not have had the result of accelerating inflation, it effectively prevented its deceleration. Third, the external economic context did not lend itself to international monetarism. In the midst of rising oil prices and debt servicing obligations, Brazil's balance of payments situation was rapidly deteriorating. Brazil should not have, owing to balance of payments constraints, attempted to discipline domestic prices with the import of similar goods. Indeed, the maxi-devaluation served to instigate another wave of inflation as firms raised prices to

[103]Fishlow, "Tale," 104-105.

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compensate for the higher price of imported producers' goods. While this resulted in a temporary decrease in the real exchange rate (it lasted only a year), the long-term effects of this were negative since the gains were rapidly overcome by an explosion in inflation. Finally, considering the volatility of the external economic environment, Delfim tried to control inflation with a gimmick of pre-announcing monetary correction, credit expansion, and exchange rates. The only way inflation could have possibly been controlled at this time was through strict discipline placed on economic agents. However, such microeconomic controls were antithetical with *abertura* and such controls were not suited to Brazil's ideological set: such controls were a bit too radically statist even for an ideological set that permitted heavy intervention into macroeconomic price determination.

After the failed experiment with heterodoxy, the Delfim government entered into an era of increasingly strict orthodox policy, which lasted from 1980 to 1982. However, two features of policy were antithetical to stabilization. First, the public deficit began to expand rapidly. The reason for the explosion of the public debt was that, increasingly, it was borrowed from domestic sources at high interest rates. To counteract the growing deficit, the state had tried to shrink this deficit by raising taxes and the prices of public goods, while cutting back on subsidies and public investment.

In late 1980 and thereafter, some reforms that had not worked in the past year were discarded. The de-indexation reforms were scrapped and full indexation was reintroduced. Pre-announced rates of indexation and currency devaluation were scrapped. Instead, a series of mini-devaluations meant that overvaluation would be less of a problem. Export growth resumed as a result of the restoration of export subsidies in 1981. Foreign borrowing was no longer promoted and controls were finally placed on the growth of new foreign loans. Also, many orthodox reforms were implemented to control foreign debt, inflation, and balance of payments deficits. Monetary policy became very tight. Price controls on industrial goods were suspended. Prices on public goods were raised and subsidies were removed. In fact, the center of the 1980 stabilization concerned cutting public sector investments. However, such sacrifices could not be contained within the public sector. The result was general recession. The strategy hoped to temper import demand by inducing mild recession and to make exporting more attractive as domestic

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demand declined. This reform was an obvious concession to the IMF.[104]

The Brazilian authorities hoped that such policies would lead to "a short albeit severe recession [which] would permit Brazil to resume its access to external finance and economic growth."[105] Urban employment, investment, and industrial output fell steeply. Falling levels of per capita income were actually worse than those experienced in the Great Depression. Still, modest success was achieved in reduction of inflation and in balancing external accounts. This recession was short, but it did not serve to resolve the underlying macroeconomic problem (foreign debt accumulation). In fact, Brazil's dependence on foreign creditors only intensified as its development strategy fell by the wayside.

> The primary effect of the recession was to unloose a new flow of capital from commercial banks placing Brazil in further debt. Instead of conceding the need for more fundamental changes, and implementing them, Delfim's primary stabilization objective was to retain international credit worthiness and liquidity.
>
> . . . It was, in other words, an unproductive recession, just as the preceding prosperity had been. . . . To avoid going to the IMF, Brazil . . . [had intensified] stabilization to persuade international creditors of its sincerity. But in so doing it lacked a real program. . . .
>
> . . . It was a . . . blending [of short- and long-term policy] that had been absent in the previous three years. . . . Delfim remained in office because there was not even governmental capacity to define an alternative strategy.[106]

A number of statistics illustrate Brazil's profound debt dependence. The external debt became self-reinforcing.[107] Seventy percent of the current account deficit resulted from interest payments in the 1980-82 period. Moreover, from 1980-81, foreign loans went almost entirely to interest payments. By 1982, interest payments outstripped new foreign loans by $6 billion. Brazil was becoming increasingly entangled in a web of debt. Also, the proportions of this growing debt dependence are revealed by the fact that debt service in 1978 had already consumed 58.8% of export earnings, but even this high figure had risen to 83.3% in 1982.[108] Since foreign debt had exploded out of proportion with

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[104]Baer, Brazilian Economy, 111, 114.

[105]Fishlow, "Tale," 107.

[106]Ibid., 106, 107, 108.

[107]For the statistics used below, see Baer, Brazilian Economy, 116.

[108]Ibid., 115.

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export expansion, Brazil was now acutely dependent on international creditors.

Eventually, Brazil did go to the IMF. This period marked a significant intrusion of the IMF into Brazil's economic policy. The high level of dependence on debt is reflected in the high price Brazil paid for what it actually got in its negotiations with the IMF. It also seems that Brazil failed to maximize its bargaining position with the IMF because it believed capital flows would resume as soon as it signed an agreement with the IMF and because it also believed that the Fund would not enforce its provisions.[109] Neither was the case. Brazil did get additional funds from the international banks. However, the interest rate on the old debt was not renegotiated on more preferential terms as it had been in Mexico. The performance criteria that the Fund asked for, and that Brazil readily agreed to, was overly optimistic. First, Brazil was obliged to produce a $6 billion trade surplus in 1983. Brazil achieved this by a deeper cut in output. The revenues generated from this trade surplus were designated for loan payments. Second, the Fund set out to control inflation and redistribute wealth from Brazil to foreign creditors by a cut in real wages. Third, the Fund favored devaluation. In February, 1983, the Fund mandated a maxi-devaluation of 30%. This devaluation, quite apart from stabilizing inflation, stimulated it to around 200%. Finally, reducing domestic demand remained a major goal of the plan. The Fund strategy conceived of controlling demand through policy reforms involving the public and private sector: as the state attempted to reduce its debt through higher taxes, less investment, and lower wages, a general decline in demand would result and would contribute to the decline in the private sector. Industrial output declined to -6.8%. Such a program explains the stagnation of GDP in 1982 and the recession in 1983 which was more severe than the one in 1981. If the 1981-1983 period is taken as a whole, GDP declined 5.1%, which contrasts markedly with the previous period (1974-80) when GDP expansion approximated 48%. The recession not only damaged Brazil's economy but its developmental confidence that had characterized the actions of participants in the developmental coalition.[110]

Neither the Brazilian state nor the IMF was comfortable with the IMF imposed

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[109]Bonelli and Malan, "Balance of Payments," 40.

[110]For details, see de Castro, "Renegade Development."

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stabilization. The Fund displayed unhappiness by Brazil's noncompliance with targets by its refusal to reduce and reschedule old debt. The state's discontent was reflected in the numerous letters of intent. Domestic critics seized on "the continuation of onerous external interest payments that came to rival the entire import bill in their magnitude."[111]

The critics also charged that IMF Plan did not help Brazil get back on the path toward renewed development but only acted to ensure that debt payments were met on schedule. Import reduction and export promotion contributed equally to the small current account surplus in 1984 that had risen from the $16 billion deficit in 1982. Though this accomplishment was indeed impressive, the surplus went toward meeting debt obligations instead of financing economic development.

In addition, the Plan, apart from its rhetoric, did not restore the internal preconditions for resumed growth but instead retarded them. Rather than stabilizing or decelerating inflation, it caused the rate to actually double. In addition, both public and private spheres of investment declined. On the one hand, private investment was discouraged by higher real interest rates, monetary stringency, and government sale of debt (which tended to turn economic activity toward speculation not production). On the other hand, public investment declined in accordance with the Plan, and this spilled over into the private sector. With the rapid declines of both public and private investment, the ratio of gross capital formation bottomed out at 16%, one of the lowest troughs reached in the post war era. Thus, despite the Plan's pretensions about promoting economic development through slowing inflation and promoting investment, it did just the opposite. Because the Plan attempted to slow inflation through the monetarist model, which is inapplicable to Brazil, inflation was induced instead of abated. Also, because the primary emphasis of the Plan was to extract wealth from Brazil so that Brazil could meet debt service obligations and not to promote development, resources were channeled away from investors and toward the foreign banks. Fishlow describes these circumstances quite well:

> To critics of the IMF stabilization approach, the stark asymmetry of the results came as no great surprise. *Contrary to the IMF's implicit monetarist model, linking external and internal equilibrium, the Brazilian experience confirmed a very different interpretation. Improvement of the external accounts*

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[111]Fishlow, "Tale," 108.

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> *has become an important source of the internal disequilibrium.* [Emphasis mine] The very policies required to permit a large trade surpluses and payment of external interest add to inflation and subtract from investment. Thus aggressive devaluation of exchange rates reflects itself sooner or later, mostly sooner, in domestic inflation because of the ubiquity of indexing. In addition, the public sector must attract ever greater resources from the private sector in order to service the now largely public external debt. To do so on a voluntary basis interest rates must be kept high and these costs are reflected in prices. In addition, governmental deficits whether financed by money or internal debt, then replenish nominal demand to sustain the inflation. *The State is to weak to accomplish the large transfer needed in a non-inflationary way* [emphasis mine].
>
> The extensive resources that have been transferred externally, amounting to some 5 percent of gross product in 1983 and 1984 and reducing national income proportionately, have come primarily at the expense of investment. Consumption outlays have resisted further compression. Even with the changes in wage indexing arrangements required by the IMF, there were limits to further declines in the standard of living. Savings have not been responsive despite the continuation of real high interest rates; bank certificates of deposits yielded about 25 percent in 1983 and 1984.[112]

The events of the 1980s signalled a new developmental coalition for Brazil. The state in Brazil showed considerable continuity in its behavior. What was needed, and lacking in Brazil at this time, was a state strong enough to negotiate an amicable rescheduling agreement with the IMF and strong enough to implement strict microeconomic policy on domestic agents. Instead, the state "knuckled under" to the IMF and opted for the more porous and less effective macroeconomic intervention. "[T]he weakness of the Brazilian State in directing the process of adjustment . . . [is shown by the fact that it] neither commanded nor effectively cooperated with the private sector."[113] This statement is not only applicable to the recession but to the 1970s' deepening period as well.

The state formed its strongest alliance with the foreign creditors after 1982. As described above, the IMF, as a spokesman for the international creditors, was the most influential agent upon Brazilian economic policy. This choice of an ally had much to do with Brazil's authoritarian nature: "it is a measure of the strong separation between the tracks of ongoing political liberalization and technocratic economic policy formulation that

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[112]Ibid., 109.

[113]Ibid., 110.

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he [Delfim] yielded to external influence rather than domestic critics."[114] The Fund's influence was indirect in 1981 (becoming more direct as time progressed) but became explicit after 1982. "As it became increasingly difficult to finance the external deficit, the Brazilian government found itself forced to radically change its macroeconomic policies in the second half of 1980."[115]

In addition to these foreign pressures, new groups became powerful in the domestic coalition while others declined in their influence. The shifts in the domestic coalition had much to do with the oil, debt, and balance of payments crises. As government cut back support and protection from infant industry, this group suffered. State firms took the brunt of the adjustment. State enterprises underwent a sacrifice for stabilization in the second quarter of 1980 and, again, in December of 1980 when investment rates were slashed across the board first by 8% and the by 15%, respectively. True, prices were raised for public goods; but since investments were curtailed, state enterprises' fortunes did not improve.

Figueirdo's policy initially favored labor, but labor lost power after the intervention of the IMF became explicit. The reason for this was a blatant appeal for widespread support of the military regime in the context of *abertura*. The military regime, however, allowed price increases to be passed onto the consumer, since the state did not want to upset the industrial elite either. At first, Figueiredo introduced a more egalitarian wage scheme; but, after the IMF agreement, the minimum wage shrunk.

A number of sectors actually experienced more power with the crisis of industry. Exporters, whether from the industrial, agricultural, or service sectors, were favored for their potential to alleviate Brazil's external crises. Exports jumped from 6.8% of GDP in 1972 to 12.8% in 1978. The favoritism of energy and agriculture had much to do with the government's strategy of dealing with the macroeconomic imbalances in the wake of the

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[114]Ibid., 106.

[115]Baer, Brazilian Economy, 114.

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oil crisis for a variety of reasons.[116] With this transition, state policy seems to have favored the service sector, particularly domestic banks, over the industrial sector. This resulted from the state's selling its foreign debt to domestic sources and instituting a regime of high real interest rates. Public debt from domestic sources increased from 5% to 15% between 1980 and 1984. Between 1980 and 1983, industrial production fell five percentage points in its share of GNP (from 38.1% to 33.5%), while services picked up five (from 51.9% to 56.7%0). In the early 1980s, as in 1964, debt dependence encouraged orthodox economic policy which benefitted exporters as well as the financial and the agricultural sectors, while industry experienced great hardship. On the other hand, the second oil crisis (when industry, particularly modern industries, suffered) contrasts markedly with the first oil crisis (when industry, particularly modern industries, expanded). Korean industry experienced similar reactions to the interactions of global events and economic policy. However, this was not the only similarity between Korean and Brazilian economic outcomes and policies. The last two chapters have relayed the developmental process of the case studies independently. In the next chapter, a comparison is drawn between the cases.

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[116]This is true for a number of obvious reasons. First, domestic food production would help alleviate Brazil's inflation stemming from a food shortage. Second, increasing agricultural export receipts would lessen the balance of payments problem. Finally, finding a domestic source of, or alternative for, oil would help alleviate the oil import crunch.

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CHAPTER V
COMPARISON

This paper will now "flesh out" the skeleton outline of Brazilian and Korean comparative process of economic development presented in figure 1. It will begin by the dependent variable and work backward to the independent variables. In both Korea and Brazil, significant changes in economic development can be seen to correspond to abrupt changes in political form. This type of analysis is simplified by historical coincidence. During the 1950s, both Brazil and Korea were formally democracies, though both were rather exclusionary ones. From the early 1960s to the 1980s, both regimes were of the bureaucratic-authoritarian mode.

Starting with the *economic development*, the dependent variable, and working backward, one can see a number of useful comparisons between Korea and Brazil. The major economic accomplishment of the Rhee regime, which endured from 1948 to 1960, was laying the basis for subsequent development. There were two major institutional outcomes which were accomplished at this time and which would constructively condition the possibilities for subsequent development. The first of these was not only creating a capacity for producing light manufactures but also *was creating an impressive overcapacity in such production.* The second was *creating a group of progressive millionaires.* Both groups were local capitalists. The former group would be coopted in a coming strategy of capital accumulation that emphasized exports to fill overcapacity in productive means. The second would be coopted to be the spearhead of industrial modernization. Despite these impressive gains during the democracy at the end of this period, the economy was deeply depressed.

Brazilian economic development during this period was similar to Korea's. The most impressive gains were made in a group of technology intensive industries which have been categorized as consumer durables. Most local firms were either pushed out of such areas by competition from the multinationals, bought out by them, or preempted by them. As a legacy of industrial production by local firms was founded in Korea, conversely, a legacy of foreign firms dominating production in the most dynamic sectors was established

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in Brazil. A precedent for the public sector in industry was developed during this time-frame, as well, with the creation of the large public firms Petrobras and Electrobras. The rates of economic development, as judged by the average annual rates of GNP growth, were comparable in Brazil and Korea at this time. One difference in economic development was that Korean industrial growth was markedly superior to that in Brazil. Another was that the rate of industrial modernization for Brazil, as judged by the rate of increase in shares of heavy industry *vis a vis* light, was markedly superior in Brazil in comparison to Korea's at this time.[1] The Brazilian economy only faltered twice during the democratic regime. As was the case in Korea, the falter occurred once at the onset of democracy and once at the collapse of democracy. The remedy for the latter in both Korea and Brazil was a military coup and ensuing junta.

Having discussed the comparative aspects of the independent variable in Korea and Brazil during the democratic period, this thesis will currently discuss the measurable variable which caused it, *economic policy*. This developmental outcome which laid the foundation for subsequent development in Korea was accomplished by a combination of interrelated economic policies. These included a combination of initiation import substitution, sale of Japanese properties, and distribution of foreign aid spoils. It is important to specify that the Korean ISI encouraged expansion of light industries. It is also important to note that the major catalyst that the state used to affect economic development was the manipulation of macroeconomic price variables. Compared to the coming Korean regime, the Rhee regime disciplined firm behavior very little, though plentiful microeconomic controls existed. While primary ISI may have been constructed from the perspective of accomplishing a rational economic good, the sale of Japanese properties and distribution of aid goods were based on a narrow political calculus whereby economic favors were

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[1]This assessment must be tempered. According to a UN study, average annual growth of production in light and heavy industry in Korea were 19% and 20%, respectively, between 1953-1958. In Brazil, comparable figures for light and heavy industry for the same period were 4% and 14%, respectively. Korea showed little modernization in industry because *both* light and heavy industry were growing extremely rapidly. In Brazil, only heavy manufacturing was growing extremely rapidly so naturally the proportions would change more rapidly for Brazil. This is not to say that Brazil was alone in being outperformed by Korea. Of 36 countries in the study, Korea outdistanced all of these other countries by a significant margin. For this study see United Nations, Patterns.

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explicitly based on political support, personal economic gain, or nepotism.[2] Still, the outcomes for subsequent economic development were quite exceptional.

The *economic policies* in Brazil were geared toward import substitution in heavy, chemical, and technology intensive industries which have been termed secondary ISI. Especially in the early 1950s, tremendous incentives, the major one being high tariff barriers for such goods, were given for foreign firms to begin production in Brazil. Another powerful incentive was the ability of foreign firms, which met certain conditions, to import equipment at the most preferential exchange rate. Foreign firms in consumer durables were interested in retaining the large Brazilian market for these goods. When tariff barriers blocked the import of such goods, they rapidly moved to produce these goods in Brazil and leap over the tariff barriers. Public oligopolies were also created during this time. While local firms were excluded from entering the most modern industries, policy towards them was hardly unfavorable as expansion of the economy benefitted the lower echelons of the technological spectrum as well as the most advanced.

Brazil's democratic state resembled the Korean one of this time in that very few microeconomic controls were used to condition firm behavior. Instead, macroeconomic price manipulation was as rife as it was in Korea. While Korean macroeconomic price distortions on the whole would be smaller than Brazilian during the coming B-A regime, it is interesting to note that such distortions in Korea during the 1950s were actually higher than they were in Brazil during this period.[3] The problem with heavy macroeconomic manipulation is that it results in economic distortions that tend to bring about economic crisis. However, in Brazil such developmental macroeconomic policies were frequently interrupted by unsuccessful and rapidly aborted attempts at stabilization. Though Collier criticizes Brazil's inability to carry out successful stabilization where this paper would criticize Brazil's inability to carry out sustained industrially supportive policies, she

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[2]While ISI policies of the Rhee regime may have represented a socially positive event (development), they also demonstrated the preference of the Rhee regime for a specific social sector, industry. In turn, the Rhee regime could not have been blind to the fact that such favoritism would entail political support from industry. Indeed, an important contention of this thesis is that even the most general economic policies of the state suggest a kind of alliance between it and society.

[3]For a comparison of macroeconomic prices of Korea and Brazil at this time, see Soong, "Political Economy of Development," Appendices.

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effectively captures the equivocal commitment of the democratic regime to effect industrial development. Also, pro-industrial policies were implemented in the interests of the society at large. "Brazil reveals a record of nearly constant unsuccessful attempts to implement stabilization programs under every president since Dutra. These occurred in 1953-54, 1955-56, 1958-59, 1961, and 1962-63. In the short-run, stabilization policies adversely affect the economic interests of many groups in society and may be the object of widespread opposition. . . . In a regime characterized by shifting coalitions and competitive party politics, the political costs of . . . [such] opposition were unacceptable. . . . In each case, the stabilization effort was abandoned and the government was immobilized."[4]

In other words, democratic Brazil was representing the interests of its people in industrialization. Industrialization can often be furthered by democratic regimes. However, exclusionary B-A regimes have the most *potential* for economic development, despite their sometimes abhorrent moral implications. What Collier does not clarify is that when Brazil entered periods of stabilization, it was following the directives of foreign parties, usually centered on the desires of the foreign banks. Collier suggests that the Brazilian state needed autonomy from domestic interest groups, but it may have also needed autonomy from foreign interest groups as well. The basic point, though, is that Brazilian policy showed an equivocal attitude toward industrialization because stabilization policies were intermittently employed and these stabilization policies retarded economic development.

Monumental changes occurred in the political power of *institutions in the developmental coalition* during the Korean democracy under Rhee. Traditionally, the major empowered group in Korea (other than the royal court) was the landed elite. Some members of this group retained their properties through the Japanese colonial period. Initially, the Rhee regime looked as if it would favor this group as well. However, because of invasion, security considerations, and pressure from the US, the properties of the landed elite were redistributed to the peasants. While some of the *Yangban* class went on to become prominent politicians and businessmen, their economic interest in maintaining the economic hegemony of agriculture was broken. It is a significant

[4]Ruth Berins Collier, "Regime Evolution," 85.

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difference between Korea and Brazil that, while Brazil's agrarian elite lost in political power incrementally throughout the post-war era, Korea's agrarian elite was decisively destroyed or transfigured. This is because a hegemonic agriculture sector can sometimes represent a counter-industrializing influence on the state.

Other dramatic changes in Korea's social structure occurred as well. The industrial sector was seized by some violent contractions that would result in the birth of a hearty, local private industrial sector. The withdrawal of the Japanese after World War II left Korea with some infrastructure for a light manufacturing sector. This was eventually sold with heavy discounts to the private sector. Even so, much of this property was destroyed or heavily damaged in the Korean War. The flood of US aid was integral to the rebuilding and overbuilding of the light manufacturing sector in Korea as well as the coddling of a group of progressive millionaires. On the one hand, the traditional industrialists would one day form the base of the export-oriented industrialization (EOI) strategy, while, on the other, the progressive industrialists would form the base of the industrial deepening strategy. A co-dependent situation resulted between the industrial sector and the state at this time: private firms needed the state to allocate aid goods to them, while the Rhee regime depended on the private local firms for political support. The local capitalist class, with the help of US aid and state support, rose up, sphinx-like, from the ashes of war to be a viable source of industrialization in the coming age.

The final monumental social change occurred in the nature of the Korean state. Korea had been a monarchy before it became a colony of Japan. Then, for a short time, it was administered by the US military. In 1948, it became formally a democracy with Syngman Rhee its as president. But the long history of autocratic rule sat uncomfortably with the rules of democracy; and, in a series of moves, Rhee attempted to strengthen the hand of the executive over the society and the legislature. The attitude of the Rhee regime toward industrialization was positive but equivocal. For Rhee, political goals, such as reunification and the maintenance of power and control, superseded any economic objectives. The single piece of evidence which epitomizes this equivocal attitude about industrial development is the fact that Korea bowed to US pressures and initiated a stabilization plan in 1957. Inflation slowed, but industrial growth rates fell more.

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Some of the social changes that occurred in Brazil at the same time were just as dramatic. True, there was no parallel in Brazil to major land reform which transpired in Korea crushing the landed elite there. The landed elite in Brazil continued to have a voice in economic decisions of the state even if the voice were diminishing. Indeed, the ISI strategy needed the foreign exchange generated by the agrarian exporters so that the exchange could be redistributed to the industrial sector to buy capital goods imports to further industrialization.

Still, other major social changes did occur. One of these was the entrance of copious amounts of foreign capital into the most dynamic and modern sectors of the Brazilian economy. Private sector firms were either preempted from entering such sectors or shunted aside by being out-competed by the foreign firms or simply selling out to them. In this case, economic policy in Brazil resulted in the influx of large amounts of foreign firms which would, in turn, affect economic development. Local private capital would not be able to carry out the most important roles of capital accumulation and industrial modernization that it would in Korea. The snubbing of the local capital sector in favor of foreign firms resulted in surprisingly little resentment by the local private sector.[5] In addition, public firms got their start during the democratic years. Electrobras and Petrobras paved the way for more public sector intrusion into forthrightly productive, industrial pursuits. This was an example of government policy that resulted in social group changes which, in turn, resulted in developmental outcomes.

Profound changes in the nature of the Brazilian state had also occurred at the onset of the democratic period. Brazil came out of an authoritarian period (1937-1945) under Getulio Vargas and entered a period of political democracy. However, much of the executive autonomy achieved under the authoritarian period was retained. While the Brazilian executives tended in the democratic period to be pro-industrial, the congress tended to be more sympathetic to agrarian interests. This meant the state had a strong but equivocal commitment to economic development and industrialization.[6] As seen through policy initiatives of the time, the state favors foreign firms over the interests of its own

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[5]Skidmore, Experiment, 165, 168.

[6]Ibid., 185-86.

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firms. Such an affiliation, of course, led to policy which affected the rapidity of development. Development was positively influenced in the short-run (the 1950s) but would be hindered thereafter. The affiliation also led Brazil into some economic pitfalls as it overexpanded public firms as a means of compensation.

Whether Brazil or Korea's democracy was more representative is a tricky issue. On the one hand, Brazil, in contrast to the Korean situation, had a number of democratic presidents. These included Dutra, Vargas, Filho, Kubitchek, Quadros, and Goulart. Not only does this suggest a greater volatility in the policy outputs of these regimes but also a greater representativeness in democratic system. This was true because Brazilian electorial laws prohibited consecutive reelections. Different nominees were forced to compete in an electoral system. These men were obliged to offer some political representativeness for the good of the party under which banner they ran. On the other hand, the Korean state promulgated the expansion of domestic firms in the dynamic sectors, while the Brazilian state sold out the local firm's potential for expansion into dynamic areas to foreign firms. This implies that the Korean state was more representative of the interests of an important domestic interest group than was the Brazilian state.

Summarizing the foregoing, one can say that there were many continuities and some divergences in Brazilian and Korean economic development under their circa 1950s' democracies. Both states demonstrated semi-autonomous characteristics and a strong but equivocal commitment to economic development. The nature of the states during this period was solidly similar in the cases of Brazil and Korea. Both countries' policies encouraged import substitution industrialization through massive macroeconomic price manipulation. Correspondingly, there were similarities in the high rate of development.

However, there also were several differences. The Korean case was more dependent on foreign interest groups, as evidenced by its agreement amidst US pressure to undergo annual stabilization plans, while Brazil's commitment to stabilization programs was ephemeral. At the same time, Brazil's autonomy from domestic interest groups was less than that of Korea's. Policy was different in at least two respects. First, Korean industrialization policy encouraged import substitution in light manufactures, while Brazilian policy encouraged import substitution in more modern manufactures. Second,

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Korean policy was aimed at encouraging the expansion of local capital in the domestic economy, but Brazilian policy was aimed at encouraging the expansion of foreign capital in the economy. Part of the reason the policies were different was that these economies were in different positions in terms of modernization. Korea was rebuilding its light manufacturing base at the end of the Korean War. Brazil's import substitution in light manufactures, meanwhile, had reached its outer limits and secondary import substitution was required to push industrialization further. This explains the fact that modernization of Korean industry, as judged by shares of heavy industry overtaking light as a percentage of total industry, was basically at a standstill during the 1950s while Brazilian industrial modernization, accelerated at the most rapid pace that it would ever attain.

Now that this thesis has described the comparative features relevant to its hypothesis for explaining economic development in Brazil and Korea during the democratic period of the 1950s, it will describe such relevant features for explaining economic development in these countries during the bureaucratic-authoritarian period (B-A). This thesis will begin by looking at the dependent variable, *economic development*, in Korea and Brazil. The democratic period held, for these cases, industrial and GNP growth rates that were basically similar (albeit a bit higher in Korea). The transformation to a more modern industrial structure that was, nonetheless, more rapid in Brazil. However, the economic development was quite different in the case studies' respective B-A periods. In no quintile between 1962 and 1986 did Korea's industrial growth fall below double digits. Indeed, in one decade (1967-76), Korean industrial growth averaged above 20%. Generally, Korean GNP growth doubled in the B-A period from what it had been in the democratic period. Korean economic development surged during the B-A period compared to the democratic.

Actually, the pace of Korean capital accumulation (aided by the export of light manufactures) and industrial modernizing investments was astounding. From 1962-72, the dynamic center of the Korean economy was capital accumulation through full utilization of productive capacity in light manufactures through intensive exporting activities by small local capital. This did not mean, however, that industrial modernization was absent. From 1960 to 1975, heavy industry gained from 29% of total industry to 42%. From

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1972-1980, the dynamic center of industry became the modernization of the industrial structure through intensive investment in new industries by large local private capital. Correspond-ingly, the share of heavy industries jumped from 42% in 1970 to 58% in 1986. What is perhaps the most surprising is that, while Brazilian growth rates fell markedly in the 1970s' deepening phases from the quintile before, Korean growth rates in its 1970s' deepening period remained at a very high level. Korea had made the transition from a primary EOI economy, in the first period, to a secondary ISI one, in the second period. It should be made clear, nevertheless, that modernization was a strong undercurrent to the primary economic dynamic of light industrial exports in the first developmental period (primary EOI), while export expansion was a strong undercurrent of the primary economic dynamic of second developmental period (secondary ISI).

Development can also be measured in terms of dependence on foreign resources. In terms of ownership of the means of production, Korea was also outstanding. First, the capital accumulation Korea experienced during the primary EOI phase was dominated by local firms. This meant that the capital stayed at home and was likely to be invested there. Only after the windfall profits had been exploited from this phase were foreign firms allowed to enter these sectors. Second, the massive drive into modern industries was spearheaded by large local capital with some "gap filling" by state firms. Foreign firms were routinely excluded from dominating the dynamic center of the economy in Korea. A final institution not only supported local firms in their economic hegemony of the economy and shielded local firms from the intrusion of foreign firms but also led local firms to behave in the way that they did: this institution was a strong, interventionist state.

In Brazil, economic development progressed rapidly, albeit with less rapidity and with more contradictions than in Korea. As was shown above, one way to measure economic development is through growth statistics. Total Brazilian GDP growth throughout the B-A period was similar to that of the democratic period, but the pace of industrialization lost ground in the B-A period from what it had been in the democratic period. Economic development, measured by these indicators, declined slightly in the B-A period from what it had been in the democratic. This is quite a contrast to the trend that developed in Korea between these two periods.

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Another way to measure economic development is the level of capital accumulation and the rate of modernization the industrial structure has reached. Between 1964 and 1984, heavy industries increased their share of total industrial product from 51.1% to 57%. This was much slower than the rate of industrial modernization that occurred in Korea as heavy industry increased from 29.1% to 57.8% in roughly this same time frame. The level of modernization of the industrial structure is reflected in the policy phase. A good way to characterize the Brazilian developmental stage at this time is by calling it *interrupted secondary ISI*. Actually, it is hard to argue that Brazil experienced much secondary ISI between 1964 and 1973. This was true because most of the price manipulations associated with ISI simply were not present during this period. The only major change in macroeconomic policy occurred when, in the 1967-74 period, the state backed a looser monetary policy, which fostered a period of capital accumulation. From 1967-73, Brazilian average annual industrial and GNP growth--at 12.7% and 11.3%, respectively--was similar to the Korean. The political model also became very similar to Korea's in that the B-A nature of the state became extreme. Industrial modernization progressed rapidly even though the capital coefficient was low. Because the level of accumulation was so high, rapid modernization of industry was bound to occur. The investment pattern only began to skew toward an era of industrial deepening in the 1970s.

In a way, economic development in Korea and Brazil was not that different in its phasing. First, both countries experienced an economic and political crisis in the early 1960s; but, in Brazil, the economic crisis endured longer, until 1967. In Korea, this crisis has been explained as a result of the end of primary ISI, while in Brazil, the crisis has been linked to an end of a cycle of capital accumulation under secondary ISI. Second, both countries, beginning in the 1960s and lasting to the early 1970s, went through a period of simple capital accumulation whereby existing capacity was utilized. Then, both countries, beginning in the 1970s and lasting to the early 1980s, experienced a period of industrial deepening whereby investment was skewed toward the more modern industrial sectors. The first oil crisis, at the onset of this deepening phase, did not bring a stop to this pattern of investment in either of these countries; the second oil crisis surely did in both countries.

Finally, economic development can be interpreted through the structure of

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industrial firms. Because of the incentives to foreign firms offered in the 1950s to enter the most modern industries, Brazil was left with a firm structure with foreign capital in the most enviable position in terms of capital accumulation, dominating the most dynamic sectors in the Brazilian economy. After the initial surge in the 1950s, economic development was slow beyond this phase since foreign firms had every incentive to keep cutting edge technologies at their base of operations in the core countries. Moreover, the risky area of basic industry was unappealing to foreign firms and implausible for local industry to enter. Consequently, the state tended to enter production in basic industry and infrastructure with its own firms, while it reserved the capital goods sector for private firms. The Brazilian state did not have the autonomy from domestic opposition to move into the productive sector in such a massive way without providing the private sector with subsidies that amounted to kickbacks. Besides, this state's role as a service provider became confused with its new role as a corporate profit maximizer, and corporate decisions were often made on the basis of the former consideration. In summary, neither foreign firms nor public firms have characteristics conducive to the maximization of long-term economic development. With such firms, Brazil's economic development was rapid; however, the Korean model, which emphasized the role of the local private sector under the tutelage of an autonomous state, seems preferable for the prospects of very rapid economic development. To repeat, "The State became larger, but economically weaker. . . . The Brazilian problem, at root, was a weak, not a strong, State."[7] The weakness of the Brazilian state may have been pronounced in relation to the East Asian NICs, but in comparison to most LDCs, Brazil had a rather strong state.

However, to find important clues to the characteristics of the pace and stage of economic development, one must look back to a dependent variable that influences it, *economic policy*. This paper has already touched on how economic development is affected by the trade regime. Korea went through two trade regimes during its B-A phase. The first trade regime, primary EOI, encouraged exports of light industrial products. Credit and other incentives merged with coercion to pressure manufacturers of light industrial products to export in the 1960s and early 1970s. The second trade regime,

[7]Fishlow, "Tale," 94, 96.

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secondary ISI, encouraged, through import barriers, credit incentives, other incentives, and coercion, a group of progressive millionaires to invest in heavy and technology intensive industries.

Another way to view the economic policy is to look at the degree of macro-economic *price* manipulation *vis a vis* microeconomic *firm and sectoral* manipulation as a means to accomplish economic objectives. Macroeconomic policy relies on price signals manipulated by the state to give firms an incentive to behave in a certain way. Micro-economic policy, on the other hand, is employed by the state giving a particular firm a command to behave in a certain way. Korea used macroeconomic price manipulation far less during the B-A phase than the democratic phase. However, Korea used microeco-nomic incentives far more extensively during the secondary ISI than during the primary EOI. Such microeconomic manipulation was employed by the bureaucracy (or the president) expressing its (his) wish that something be done. The state employed micro-economic controls, or coercion, through the nationalized banking system. If the state's wishes were fulfilled by a firm, then the firm could expect a financial reward (loans offered at preferential rates). But, if these wishes were left unfulfilled, then the firm could expect to face a severe penalty, if not bankruptcy (loans given at market rates or not at all).

While microeconomic controls may be more crude than macroeconomic price manipulation, the former may have the advantage of being more influential on changing a firm's behavior in a shorter amount of time. On this point, Jones and Sakong write: "Discretionary command is fast, but very risky and accordingly needs to be administered with skill or luck or both. . . . [Developmental changes in Korea] might well have happened eventually with sufficient parameter manipulation, but they occurred as early as they did as a result of command. The question, then, is not whether or not command is necessary to rapid economic development, but the wisdom of the ends towards which it is directed and the degree to which it is enforced."[8] Furthermore, if a greater use of microeconomic controls (or discretionary command) lead to positive developmental consequences without heavy macroeconomic intervention (or parameter manipulation), then their use may be preferable. This is because heavy macroeconomic intervention

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[8]Jones and Sakong, Government, 134.

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tends to create distortions in the economy which can lead to economic crisis. Microeconomic controls may be preferable not only because they can promote faster development but because, if used wisely, they also create fewer obstacles to it. In the 1980s, Korea endorsed secondary EOI, reorganization, liberalization, and stabilization policies.

In B-A Brazil, economic policies also affected the rate and phase of economic development greatly. For instance, Brazil underwent the policies of *interrupted secondary ISI* during its entire B-A period. First, it went through a period of neoliberal policies to stabilize its economy from the excesses of populist ISI. One by one, neoliberal policies were eschewed in favor of state intervention in the area of macro- and microeconomic intervention to promote development. The first neoliberal policy to be eschewed was monetary stringency. In 1968, the loosening of monetary stringency ushered in an era of capital accumulation based on exploitation of excess capacity. Increased exports played a significant role, though increased domestic consumption exercised more power in bringing about the Brazilian economic miracle. By 1975, other macroeconomic prices were manipulated to encourage investment in newer industries. This ushered in a period of renewed secondary ISI in which investment was encouraged to expand capacity in existing high technology and heavy industries and to channel investment into newer industries. In Brazil, secondary ISI was interrupted not only by neoliberal macroeconomic policies that coincided with and contributed to a lengthy economic recession, but also by expansionary monetary policies which resulted in a miraculous economic recovery. Thus, secondary ISI, which had its origins in the democratic phase, was interrupted from 1964-1974 before it was re-initiated in the 1975-1981 period.

While macroeconomic intervention to promote development may have been eschewed in the 1964-67 period, such intervention was actively pursued thereafter, especially after 1975. Thus, *intermittent macroeconomic intervention* was the dominant method of development intervention in Brazil. In addition to intermittent macroeconomic intervention, Brazil, at least in regard to the banking system, practiced *incomplete microeconomic intervention*. The Brazilian state's control of credit allocation and pricing was only partial, owing to the fact that Brazil never resorted to the drastic measure of nationalization of the entire banking community. This meant that, while the most

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favorable rates on credit were available through the Bank of Brazil, Brazilian firms were always free to seek loans from the private sector. As a result, Brazilian firms could opt to disregard state demands which ran concomitant to allocation of Bank of Brazil and BNDES loans. Brazilian firms were free to seek loans elsewhere in the Brazilian or international capital market without the paranoia of having to face a hard state that might force a firm into bankruptcy as was the case in Korea. Moreover, the large presence of MNCs in the economy meant that these firms had access to international capital in a way that Korean local firms did not.

While the banking system is an important resource of state microeconomic intervention, it is not the only one. In Brazil, the most important source of microeconomic intervention was the expansion of public firms into infrastructure and basic industries. The banking system may be important in a situation where there is a distinct separation between the state and firms and, thus, presents potential of an adversarial relationship between these two bodies whereby the state asserts its dominance through such mechanisms as credit. However, the private sector (neither foreign nor local) was not to be the main engine of 1970s' development in Brazil. State firms were the primary instrument of economic modernization in the period of renewed secondary ISI. Since the state did not have to coerce existing firms to invest in newer industries, it created or diversified public enterprises to do this. Korea did not eschew public firm expansion but used it much more sparingly than Brazil. In the 1980s, Brazilian policy became radically reoriented with stabilization and liberalization as it had in the middle to late 1960s.

One can draw strong comparisons between Brazil and Korea in their respective economic policy phases. Both Brazil and Korea went through distinct economic periods. There were policies encouraging capital accumulation and exports in both countries. In Brazil, monetary expansion encouraged full utilization of built-up capacity, while, in Korea, policies encouraging exports accomplished this same result. Both countries followed up their stage of capital accumulation with a deepening stage. In both countries, the oil crisis ended secondary ISI. Both countries increased exports, reduced some forms of intervention, and stabilized their economies. However, Korea fomulated a policy, including reorganization, which helped its economy recover rapidly. Brazil initiated few

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plans beyond stabilization, and liberalization and its economy suffered through the 1980s.

In addition to economic policy phases, one can also examine the comparative aspects of microeconomic and macroeconomic policy intervention. Such intervention reached its apex during the secondary ISI phases these countries underwent during the 1970s. In both countries, the state used heavy macroeconomic price manipulation and microeconomic controls to encourage investment in new industries during secondary ISI in both Brazil and Korea. The Brazilian state did distort macroeconomic prices much more heavily in the 1970s deepening phase than did the Korean.

In Brazil and South Korea, stabilization policies have been applied to correct for price distortions and international shocks. While growth was sacrificed in Brazil on the altar of stabilization policies, this was not so for Korea. In Korea, one gets the sense that the state, having successfully accomplished its major goals of economic development, was fine tuning its microeconomic prices to equilibrium levels. In Brazil, however, one comes to the conclusion that there were still some grave macroeconomic problems (foreign debt and hyperinflation) for which the Brazilian state applied both orthodox and heterodox solutions with very limited success. To recall Amsden's words, "If the Korean economy has outperformed the late learners of Latin America, the reason cannot be said to lie in short-term austerity measures to manage external shock, because the response of the Korean government to external shock was not to batten down the hatches."[9] The Korean state coupled stabilization measures with heavy foreign borrowing to compensate for balance of payments difficulties, bailouts of troubled *chaebols*, and intense pressure to push exports out and resume growth. If Brazil often tried to circumvent stabilization, so did Korea. Paradoxically, the Korean economy may have had fewer and less pronounced price distortions than the Brazilian, but the Brazilian state may have had more faith in free market principles than the Korean. Whatever Korea lacked in terms of macroeconomic controls, it more than compensated for by microeconomic controls. This is why one can contend that the absolute level of intervention was greater in Korea than it was in Brazil.

This thesis suggests that the economic policies and economic development have *institutional* correlates. The two institutions which received focus here are the two that

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[9]Amsden, Giant, 93.

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had the most profound impacts on economic policies and economic development, firms and the state. The Korean state is presented here as highly autonomous. The state has autonomy not only from non-industrial sectors but also from the industrial sector toward which it directs most of its policies. The differential treatment of firms through micro-economic intervention throughout the B-A period implies a heavy amount of autonomy. Relatively disfavored industrial firms would be expected to protest their treatment by the state. This was not the case in Korea because of the state's autonomy from such firms. Further, the Korean state's autonomy can be seen by the fact that it accomplished its goals through microeconomic coercion and incentive for certain sectors often over the objections of the leading industrialists in those sectors. This was true in the primary EOI phase when light industrialists resented pressure from the state to massively increase their exports. It was also true in the secondary ISI period when larger firms resented state pressure for them to enter more modern areas of production. In both periods, the state had to resort to coercion as well as incentive to accomplish its goals.

The Korean state's autonomy from such firms can also be seen in the ease with which the state switched its policies from favoring capital accumulation (via pressures on the light industrial sector to export intensively) to favoring industrial modernization (via the diversification of large local capitalist into newer industries). The switch in policy favoritism implies that the formerly favored light industrial sector might protest the states' relatively less receptivity to their interests during secondary ISI. This was not the case, however. Because of extreme autonomy, which only increased during the 1970s' secondary ISI, the state was free to radically reorient its policies to accommodate its developmental goals and the dictates of the stage of late development that it had reached.

The autonomy of the Brazilian state approximated but did not reach the level of the Korean state's autonomy for two reasons. First, the interests of the agrarian elite continued to have some sway over the state's policies. This was especially true during the first few years of military rule. The fact is that the Brazilian state, considering the country's rich endowment of land, could not afford to ignore this potential engine of growth entirely. In actuality, agrarian exports gave the balance of payments some buoyancy, which tended to counteract the drag created by the import-substituting policies. Import

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substitution was inclined to discourage industrial exports as well as be import intensive on some producers' goods. Both conditions hurt Brazilian balance of payments and, consequently, the Brazilian state depended on agrarian exports to help balance its accounts.

Second, Brazil had less autonomy from the industrial sector than Korea did. The Brazilian state had limited freedom to impose its will on the dominant industrial group, foreign firms, during the 1964-1974. While such firms could be coerced to a certain extent, if the state insisted that such a firm correspond to a certain dictate and the parent company felt strongly that such a dictate would seriously jeopardize the firm or the parent company's profitability, then the parent firm might decide to close the subsidiary. Clearly, the Korean state had more power to coerce local capital than did the Brazilian state to coerce foreign capital. In fact, the inability of the Brazilian state to control the behavior of this type of firm may have influenced the shape of development and the pace of industrial modernization. The pace of modernization was affected because MNCs could not be induced to invest in certain new industries. The shape of modernization was affected because the Brazilian state's inability to direct MNCs led to policies which dramatically increased the dominance of public capital over the most modern sectors of the Brazilian economy. In that public capital did not serve to maximize capital accumulation in Brazil, the alternative of public firms slowed developmental progress.

There is also some indication that the Brazilian state had less autonomy from local capital than the Korean state had from such capital. During the democratic phase, foreign firms, not local ones, were selected to spearhead a drive into modern industry. This implies that during the 1950s the state had a great degree of autonomy, although local firms were partially compensated by the growth they experienced during this general era of expansion. During the deepening phase of the 1970s, local firms were passed over, again, but this time in favor of public ones. The compensation of local firms was more explicit in the 1970s. The Brazilian state gave the local sector generous subsidies which served little developmental purpose than to buy its complacency. Not only was this tact ineffective (significant protest against state entrepreneurship was voiced by local capital anyway), but it was also developmentally harmful: (1) the could superfluous subsidies to private capital could have been better spent as investment capital to new industries, and

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(2) these subsidies also weakened the state financially when it could ill afford to be weakened any more. The ability of the state to pass over local capital for the most privileged position in the industrial alliance implies some autonomy. However, the necessity of the state to compensate the local sector (especially during the return to secondary ISI in the 1970s) and the existence of protest by the local capitalists (mostly during the 1970s' secondary ISI phase), suggest that the state in Brazil may have been less autonomous from local capital than was the case in Korea. Also, the fact that Korean autonomy was joined to a "development first" mentality meant that developmental goals preceded political concerns. In Brazil, there is evidence that, in some cases, the reverse was true.

To contend that the states in both Korea and Brazil were more autonomous in the B-A phase than they were in the democratic is not to contend that these states were completely without alliances to the productive sector. In turn, these alliances between the state and business had an impact on economic policies and economic development. This is not to say that these institutions have equal impacts on economic development and economic policies. While the influence of firms on economic policies may be less direct than the state's, the effect of firms on economic development is necessarily more direct than the state's. This is true even if the state intervenes heavily to influence firm behavior.

In Korea, the B-A state preferred to form strong alliances with local capital rather than foreign or public capital. Nevertheless, Korea witnessed a distinct shift in the state's alliance to different forms of local capital. In the first phase, state policy clearly supported the interests of light small local capitalists in light industries who agreed to utilize excess capacity in intensive exporting behavior. As a secondary policy initiative, the state encouraged the diversification of large capital into more modern industries. While the autonomy of the state in Korea may have given the state significant freedom of policy choice, the state definitively responded to the presence of a specific interest group, primarily light industrial firms, at this time. This characterized the alliance during the policy/developmental phase which is crudely called primary EOI.

In Korea, the converse of this alliance arrangement is evident in the policy developmental phase bluntly called secondary ISI. Here, the state formed a primary

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alliance with large local capital to diversify into even more modern areas of production than such capital even wanted. To make such diversification plausible, the state offered large local capital generous incentives and stiff coercion. This is not to imply that light local capitalists were entirely ignored or that exports of more modern products were eschewed, but it is only to say that such goals were placed on a back burner. Again, the state was responding to the presence of a specific interest group, primarily large local capital, in the formation of its policy during this period, despite the greater autonomy that the state achieved from interest groups during the 1970s.

As has been shown above, local capital in Korea held a dominant position in the most dynamic sectors of the economy. The state not only responded to certain subsectors of local producers in policy formation; but the policy, once formed, influenced economic development. In this scheme of development, foreign and public firms played lesser but important supporting roles in local capital's hegemony of the economy. The contention of this paper is that the state was just as rigid (in not more so) on foreign firms and public firms where its developmental goals were concerned.

The supportive role of different kinds of foreign firms basically parallelled the two periods in which the different varieties of local firms rose to a position of hegemony in the Korean economy. Just as the rise of the local firms was conditioned by premeditated state intervention, so was the supportive role of the foreign. In addition, the foreign firms had to face the same "hard" state that local producers did. There is reason to believe that the state in Korea, in contrast to the state in Brazil, was "harder" on foreign capital than local. This stemmed from the Korea state's greater distrust of foreign in comparison to local capital. This "hardness" was not only felt in the in the detailed entrance agreements that foreign firms were required to negotiate with the state but also in the strict way these agreements were enforced. In Korea, the state began its dealing with the different social productive groups by humbling them from the outset. This occurred through the legalistic threat to the local capitalists after the military coup and through the entrance agreements required by the state of foreign capital. The maintenance of such dominance was achieved through legalistic and extralegal norms. Through these acts, the Korean state established dominance and bent the different sectors of capital to its developmental will.

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If the state made it so difficult for foreign firms, one might ask, why did they enter in the first place? The answer is that often they declined to enter. This outcome fit the designs of the Korean state which wanted foreign capital, but only the foreign capital that agreed from the outset to conform to its wishes. The relentless attitude of the state toward foreign firms can be seen by the fact that so little foreign capital was allowed to enter Korea. Correspondingly, the size of foreign direct investment remained a small part of total capital inflow. In the 1960s, the ratio of foreign direct investment to total capital inflow was around 4%. It swelled to nearly 8% in the first half of the 1970s but fell to less than 4% in the 1976-84 decade. By comparison, Brazil's foreign investment as a share of total capital inflow approximated 23% in the first half of the 1970s. It is important to remember that foreign capital's share in investment and GNP was a small but significant source of development in that it contributed to local firm expansion.

If foreign capital did not enter in droves as it did in 1950s' Brazil, then that was fine with the Korean state. This condition only reflected the Korean state's preference for local capital to accomplish the state's developmental objectives and the state's fundamental distrust of foreign capital to respect its developmental wishes. Thus, foreign capital was never allowed to denationalize the Korean economy of powerful local firms as foreign capital did in 1950s' Brazil. The state held the attitude toward foreign firms that they could profit from a supportive role to local firm expansion, but they could not capture windfall profits by displacing local firms. If foreign firms had full control of the most profitable sectors of the economy, the profits could be repatriated; but if local firms held such sectors, the profits should stay at home where they could be reinvested. Moreover, if local firms could be induced to learn new technologies through joint ventures, then the Korean economy would not be dependent on wholly-owned foreign firms for it.

The parallel movements of Korean local and foreign firms is described as are the requirements that the Korean state placed on foreign capital. Such requirements made foreign capital the handmaiden of local capital. As previously described, during the EOI phase, the state formed a primary alliance with light manufacturers who agreed to export. To complement a local firm's own efforts at finding foreign markets for its products, the state enlisted the support of foreign firms. "The only way on which labor-intensive foreign

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investments would aid the domestic economy was through foreign investors' knowledge of, and access to, foreign markets."[10] Enlisting the participation of foreign firms in the project of increasing light industrial exports through joint ventures would be expected to increase the export potential of local firms more than the local firms could have done solo. While these firms might well have been interested in entering the Korean market, the domestic market was strictly reserved for local firms. The state could afford to be very tough in regard to this form of foreign investment where the technological gap was small and where many foreign investors showed interest. As a compensating mechanism, the state gave foreigners other incentives to produce in Korea. Only recently have regulations been relaxed in Korea in the light industries to allow greater penetration of foreign firms in the light industries. The Korean state has extended less liberalization in the area of the dynamic industries.

During and anticipating the secondary ISI phase, the state enlisted foreign capital to help modernize Korea's structure of industrial production. Again, the state tried to facilitate the expansion of local capital through joint ventures. However, in this instance, the primary aim of such partnerships was to facilitate technology transfer. The state pressured foreign firms to form joint ventures with local firms so such transfers could be realized. The state always negotiated with a view toward increasing the rate of technology transfer. The state also worked to increase the advantages of local firms in other ways. It sought to limit foreign firms' access to the domestic market, it worked to expand the raw materials the foreign partner would supply to the project, and it tried to maximize the amount of surplus that would go toward reinvestment in the project and minimize the amount of surplus available to the foreign partner for repatriation. To allow local partners to rapidly gain access to technology, the state worked to give local partners controlling shares of the project from the outset. If control could not be established immediately, the state negotiated on how rapidly local partners could gain controlling shares.

While the Korean state could afford to be strict in its conditions for firms entering light industries where the technological gap was small and foreign interest was large, the state had to relax some of its strictness where the technological gap was large and few

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[10]Mardon, "Control of Foreign Capital," 133.

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foreign investors had interest. Such compromises meant that, at least initially, foreign investment agreements in very technologically intensive sectors had to reflect the "global rationality" of the MNCs in maximizing profits and retaining control of technological secrets. Nevertheless, wherever and whenever possible, the state worked to make these agreements reflect its own "nationalist rationality" of protecting the interests of large local capital and bending foreign firms (and local ones) to its developmental will. As time went on, the technological gap narrowed, and other foreign investors became interested in investing in the more modern sectors in Korea. The state still supported the expansion of local capital's interests relative to those of foreign capital. Foreign firms were never allowed to denationalize the economy of local firms as was the case in Brazil as it entered its secondary ISI phase during the 1950s.

In Korea, public enterprise assumed the role of facilitating the modernization of the industrial structure by local capital before and during the phase of secondary ISI. During the 1960s, Jones and Sakong document a dramatic upswing in the number and GNP share of public enterprise production. These new public firms also tended to be concentrated in the more modern industries. "Roughly speaking then, the old enterprises were basic (plus revenue), while new enterprises were motivated by developmental and power considerations."[11] These authors imply that this phenomenon was just another example of the Third World development model in which public enterprise is called on extensively to speed national development by assuming an ever larger role in the economy by capitalizing on new dynamic sectors. However, from hindsight, it is clear that state enterprises were only "gap-filling" and spearheading development in the dynamic sectors to make it safe for the ranks of large local capital that would be increasingly called upon to carry on the project of modernizing the industrial structure. In particular, state firms tended to enter areas of modern production which provided a market for major private sector initiatives into HCI industries, had a particularly low initial profit rate, had a very high start-up cost, or were otherwise acutely dangerous for the private sector. Outside of Korea, public firms carry the stigma of being inefficient for a variety of reasons. Jones and Sakong's analysis as to why Korea had efficient public firms is put well.

[11]Jones and Sakong, Government, 158-159.

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> [T]he public enterprise sector operates relatively well for the same reason that other forms of intervention are effective. Public enterprise is one form of discretionary command, and the potential for abuse of this form of intervention is minimized by leadership commitment to growth administered by a competent hierarchy, producing a hard state with a pragmatic non-ideological approach to choosing means. . . . [B]latent inefficiency . . . is eventually brought to the attention of the Blue House; then things happen quickly. Public enterprises may thus be less inefficient in "hard" states where political authority is able to act decisively. Similarly, the anti-public ownership ideological bias makes the government less tolerant of public enterprise abuses.[12]

It seems that the Korean hard state produced positive developmental results for its economy by not only being exacting on the local, foreign, or public firm alone but also by being demanding of all three firm types together.

In the B-A period, a degree of difference existed between the Brazilian state in comparison to the South Korean one. Instead of being highly autonomous from the productive sector, Brazil was only semi-autonomous. In both the Brazilian and Korean cases, the level of autonomy increased from the democratic to the B-A phases. However, the leap in the Brazilian case was by degree, and the leap in the Korean case was in quantum fashion. While the state autonomy from domestic interest groups during the initial years of B-A was necessarily high, the state autonomy from the foreign financial community was low. Foreign banks, under the auspices of the IMF, pushed austerity policies on a state that was only too willing to find an alternative to the populist policies on which it blamed Brazil's crisis during the 1960s. However, the cure was as bad as the disease in that these policies prevented the restoration of industrial growth. Indeed, when the state introduced policies that caused the economy to finally rebound and industrial growth to return, the policy reforms were based on political considerations calculated to appease industrial firms that had suffered through many years of recession. Growth of the money supply not only brought about a return of economic health but also slowed inflation. This is ironic since three years of recessionary neoliberal policies only began to put a dent in inflation; but looser money also contributed to the control of inflation while it permitted rapid growth.

In Brazil, the late 1960s and early 1970s ushered in a period of capital accumula-

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[12]Ibid., 162.

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tion when there was relative harmony between the state and industrial institutions (local, foreign, and public). These groups forged a "triple alliance" whereby the state worked through public firms to build joint ventures with foreign firms and include local capital whenever applicable. State firms grew in stature to rival foreign firms, and these forms of capital brought local firms into this alliance not only to legitimate the dominance of foreign firms but also to increase the legitimacy of the growing dominance of public firms.

The state's behavior immediately following the oil crisis is instructive in terms of autonomy because this was when the harmony of the triple alliance fell apart and the different industrial interest groups cried out to the state for relief. As the state responded to these divergent pressures, its policies became somewhat contradictory; and, thus, efficiency at accomplishing development was not maximized in Brazil as it was in the Korean case. The state found its economy in the early 1970s in need of some drastic changes. The state could choose one of three main directions in which to implement changes. First, the state could choose the neoliberal route which would mean a choice to absorb the oil shock through recession. Second, it could try to rectify some of its developmental deficiencies and attempt to grow in spite of the oil shock. Third, it could employ some combination of these two strategies.

The state chose the second option with some vacillation toward the third. One of the deficiencies that troubled Brazil at this time was insufficient productive capacity in the sectors (dominated by foreign companies) that had thrived during the miracle years; the other deficiency was that Brazil lacked a strong base in some of the more modern industries which were to be dominated by public firms.[13] In the first case, the state made producers' goods imports cheap so that (primarily) foreign firms could rectify their deficit in capacity. However, this partially undercut the state's attempt at secondary ISI deepening. This occurred because some of the very producers' goods imports (which were made less expensive) were some of the very goods for which the state wanted to

[13]Choosing public capital for the project of ISI deepening responded not only to the public firms' desire to diversify but, more importantly, to the state's nationalistic desire to wrest control of the dynamic industries from the foreign firms. The reason the state wanted greater control of manufacturing is that it had not a small amount of difficulty in enticing foreign firms to diversify into the producers' goods sectors. The reason the state chose public capital over local capital for the entrepreneur of this project was that local capital had a serious technological backlog which would be difficult to overcome.

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develop a productive capacity locally, ironically enough, through import substitution. Meanwhile, local capitalists who had seen themselves cheated of their chance to engage in modern forms of production by a massive influx of foreign capital now saw themselves largely cheated, again, but this time by an expansive public sector. Local capital protested. To calm the protest, the state granted local firms generous financial subsidies which served no good economic purpose. Instead, the basis of the compensation was political. In turn, these subsidies undercut the financial strength of public firms to soundly invest in the new industries. Political turmoil was created by the economic crisis from whose fires brewed a cauldron of contradictions that can only be explained by the lack of state autonomy. This paper should not leave the impression that secondary ISI deepening was a "boondoggle." It may have led in the end to an even deeper economic crisis, but the path, itself, resulted in rapid industrial growth at a time when other countries were experiencing depression. The foregoing is posed as an explanation of why Brazil experienced less success in its 1970s' secondary ISI deepening than Korea: political autonomy was greater in Korea than in Brazil, leading to greater coherence in economic policy.

The state's equivocal commitment to economic development can be seen not only in its rejection of nationalistic development in the mid-1960s but also in its similar rejection of such development in the early 1980s. In both cases, the state adopted neoliberal policies in an attempt to rectify macroeconomic imbalances, reverse recession, and to meet its foreign debt obligations. In both cases, only the last of these objectives was accomplished. Recession was not reversed nor was the most important of the macroeconomic imbalances remedied: though conservative prices were allocated to macroeconomic variables, rates of inflation remained very high. Nor should this be surprising, since the state in both cases was pandering to the interests of the foreign banks' interests (wealth extraction), the main objective could not be economic expansion. Thus, the Brazilian state's commitment to economic development was equivocal.

Even during the periods of economic growth and industrial modernization, the state's commitment to economic development was less than myopic. As we have seen above, the state often let political concerns intrude on its objective to maximize economic development. The competing concerns of public, local, and foreign firms undermined a

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coherent strategy of economic development if this strategy is viewed from a vantage point of purely the economic concern of maximizing development. If one considers that the Brazilian state had not achieved the degree of "hardness" that is evident in the Korean case, then the strategy becomes rational from a political perspective. The strategy consisted of the state's political rationale of accommodating the particularistic interests of different firm types plus the state's economic rationale of maximizing development.

To make better sense of the developmental policies adopted by the state and the developmental outcomes, one must look not only at the autonomy of the state but also at the division of labor between the different productive groups and the hierarchy of dominance this implies. While, in Korea, the state assumed the role of senior partner in the developmental alliance between state and local private sector, in Brazil, the state assumed the role of junior partner and allowed the market, skewed though it was, to determine economic outcomes (at least to a greater extent than in the Korean case). Through the interaction and the independent actions of the three social groups of production--state, local, and foreign capital--the Brazilian model of accumulation was born. Of these three, foreign capital was the most empowered during the miracle years. The next decade witnessed the growing dominance of public capital in the economy.

Though it can be argued that the state achieved dominance over the three firm types during the first three years of B-A, foreign capital was the dominant form of capital between 1964 and 1975. This was the case because it had achieved hegemony over the dynamic sectors of the Brazilian economy (with state complicity) during the 1950s. Foreign capital was also influential in the alliance because it possessed the most valuable resource to industrial modernization, high technology. The impact of foreign firms on economic policies during the first decade of B-A in Brazil was only compromised during the first three years of that rule when Brazil's vulnerability to foreign debt made the state more amenable to influence by foreign banks. This slowed the pace of economic development since policies were largely a function of an exogenous interest group, foreign banks, that had little concern for Brazil's national development other than debt repayment. Even when foreign firms regained their dominant position in the miracle years, the rationale guiding economic development sometimes became an arena for the contest of wills

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between the state's affinity for nationalist development and the foreign firm's orientation to maximize profits and minimize risks (global logic). At other times, shared interests in rapid economic growth contributed to rapid development. Thus, the globalist logic that the MNCs used was not always contradictory to the goals of nationalist logic, but some conflicts emerged. These arose from MNCs desire to repatriate their profits and keep technological secrets to themselves, while the state desired companies to invest profits locally toward industrial diversification and have foreign firms share high technology with local partners. Indeed, the fact that Brazil was short on productive capacity at the end of the miracle years can probably be traced back to the insufficient investment on the part of MNCs, preferring to repatriate their profits. If the state pushed too hard in imposing its nationalist logic on the foreign firms and such firms perceived that such interventions would be unprofitable, then the MNCs might decide to withdraw from Brazil and place their investments elsewhere. On the other hand, if the state did not push its objectives rigorously enough, then economic development would likely progress at an unacceptably (in the state's view) slow pace.

In Brazil, there existed a mixed economic message that seemed to call for stabilization, on the one hand, and for secondary ISI deepening, on the other. On the political side, forces pushed in favor of ISI deepening. The state's nationalist agenda to modernize the economy was blocked by the reluctance of MNCs and the inability of the state to coerce them to increase the rate of modernization. Foreign firms were also pressuring the state for incentives to increase their deficient capacity. This set in motion a policy which the state hoped would expand the capacity in past dynamic sectors (dominated by foreign firms) while new sectors were entered (slated to be dominated by public firms with some private firm expansion). While this plan may have been contradictory, it certainly signalled a profound shift in the hierarchy of productive social sectors in the developmental alliance as well as a shift in the importance of the different firm types in the economy. The role of the state in the economy grew as it elected its progeny, public firms, to assume dominance of the triple alliance. The choice was a natural one considering the social arrangement that the 1950s had created. This legacy meant that foreign firms were technologically advanced but unwilling to diversify. It also meant that private

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capital, while eager to regain its position of dominance, had neither the technological backlog nor the capital reserves necessary to carry through such a project. Public firms, which were the second most technologically advanced and had access to large reserves of capital, were the natural choice to undertake this project. As a result of state command and policy, such firms began to diversify rapidly. When they needed the closely-held technology of the foreign firms, they formed joint ventures with them. In both Korea and Brazil, the most important result of the joint venture was technological transfer. The difference is that, in Brazil, joint ventures formed the base of the Brazilian developmental model, while, in Korea, such ventures occupied a small, but necessary part of the Korean developmental strategy. In this way, realities in the developmental alliance influenced economic policies in Brazil and worked to reorient the hierarchy of institutions in the developmental alliance and in the economy according to the requisites of the state's new development agenda.

Local capitalists, then, were brought into the double alliance between public firms and foreign firms whenever it was convenient to do so. Two factors encouraged the inclusion of local firms into the alliance whereby the triple alliance was forged. The first was the ability of the local partner to contribute something positive to the joint venture. The other was a political motive. The state endured much criticism from local firms that felt they had been excluded from this new era of expansion just as they had been in the 1950s. One way the state chose to diffuse the animosity of the local capitalists was to include them in the joint venture. Often foreign firms also sought local partners for political reasons. The dominance of foreign firms, particularly in sensitive sectors, was often offensive to the general public. However, if a local partner is brought in, this diffuses the opposition's argument. Further, MNCs often sought out local firms because of their political connections within the state. As Evans observes, "the best cards on the side of the locals are political. The multinationals' best cards are technological."[14] Local capitalists may have protested against the new expansion of the state into the economy, even though they may have been partially quieted by the kickback of subsidy and joint venture. Despite this, they did not play a larger role in the economic expansion of the

[14]Evans, Dependent Development, 202, 203.

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1970s' secondary ISI deepening than they played in the 1950s' secondary ISI. The arrangement initially favored foreign capital and then public firms to produce in dynamic sectors. Both arrangements had many positive developmental outcomes. However, the infusion of local capital into the dynamic sectors of the economy seems to be the maximal way to achieve development.

The contrast of Brazil's developmental social structure to Korea's is quite striking. Korea had a developmental social structure in which domestic firms were the primary developmental agents, unlike Brazil, where such agents were foreign firms. Three implications follow from this. First, if technological innovation were to occur at all in firms based in Korea, it would have to be done by domestic firms. Corollaries to such R&D are royalty payment and joint ventures which have been popular devices of acquiring technology in Korea. Domestic trials at technological acquisition were required in the absence of foreign firms. Korea's method of employing research and development (R&D) locally to a greater extent by the utilization of domestic firms may be preferable in the sense that, once technology is owned by a domestic firm, no "incremental" technology transfer from MNC to a domestic firm is necessary. Though Korea's method implies a stronger commitment and greater effort in the area of technology acquisition on the front end, this effort was advantageous because Korea did not experience a lengthy dependence on foreign firms for technology as was the case in Brazil. Korea was able to make a more abrupt break with dependent development in the area of acquiring new technology while Brazil's dependent development in this regard was more of a continuous process.

Second, the Korean model, which employs the use of domestic firms more intensively in its developmental alliance, seems to be preferable in terms of the state's enhanced ability to orchestrate development. The Brazilian state was able to use unidirectional tax and credit subsidies as well as public firm expansion in its policy to encourage incremental successes in achieving greater industrial diversification and manufactured export increases. The Korean state, on the contrary, was able to force greater advancements in technology and breakthroughs in export expansion through coercion and policy inducements. On the pressure side, the Brazilian state was constrained by the fact that, if it pushed too hard, MNCs were liable to withdraw from

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Brazil with the valuable technology which state nationalists wanted Brazil to keep. In Korea, patriotic and nationalist interests aside, domestic firms were to a greater degree "stuck" in the nation. This meant that Korean domestic firms would be compelled to abide by the government's wishes to a greater degree than Brazilian MNCs. This meant that Korean domestic firms would be likely to be easily persuaded to make drastic changes in their behavior if this promoted the national good than Brazilian MNCs would. Moreover, Korea's nationalized banking system gave this country a policy tool to work with the private sector that Brazil only approximated in lackluster fashion. In Brazil, negotiation between the state and foreign firms were a delicate matter for the state while, in Korea, the state handled its negotiations with its dominant industrial group (local capital) much more bluntly. Under these circumstances, the dominant productive group in Brazil (foreign firms) were much more free to act according to their own interests than the dominant industrial group in Korea (local capital). The harmony of interests between local capital and the state in national development seems much greater than the gulf which separates the nationalist logic of the state and the globalist logic of the MNCs.[15]

Because Brazil had a legacy of MNC dominance, inherited from the 1950s when the democratic regime had welcomed massive FDI inflow, the MNCs were much less in tune with the nationalist developmentalist objectives from the onset. The Korean state's extensive screening of foreign firms before any FDI was allowed to penetrate the economy permitted this state to bend MNCs to their developmentalist will. In Brazil, the MNCs, having already gained dominance over the dynamic sectors of the economy, were much less willing to compromise with this state when conflicts over national development versus profit maximization arose.

The above has emphasized the differences between the alliance structures of Brazil's greater affinity for foreign capital during the first decade of the Brazilian B-A in contrast to Korea's greater affinity for local firms. What of Brazil's greater affinity for oligopolistic public firms during 1970s in contrast to Korea's greater affinity for oligopolistic local firms at this time? First, let us look at the issue in terms of alliance shifts. Both Brazil and Korea went through rather dramatic alliance shifts during their B-A

[15]Ibid., 176-177.

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regimes. Of course, the reordering of dominance between productive groups is a project likely to bring about social conflict. To minimize such conflict, the state must be autonomous, and the gap must be small between the old and the new dominant productive group. In the first place, it appears that the state was more autonomous (harder) in the case of Korea than in Brazil. Secondly, in Brazil before the 1950s, industrialization was largely a project for light, local capital. Then. in the 1950s and 1960s, the project of diversifying the industrial structure was taken further by the foreign firms. Thereafter, in 1970s' Brazil, the state firms took over the project of modernizing industry. Korea may have undergone the major project of switching policies from primary EOI to secondary ISI, but it stuck with local capital throughout. Granted, these were not the same groups of local capital. Korea's transition from different types of local firms during its B-A was less of a leap than Brazil's shift from local to foreign capital and then from foreign to local capital. In any case, Korea was better able to smooth over the rough areas in the transition with its more autonomous state.

In addition to alliance shifts, one can also compare the logic of the primary agent carrying out secondary ISI in 1970s' Korea (large local firms) to the primary agent that engaged in secondary ISI in 1970s' Brazil (public firms). Above, this thesis has argued that foreign firms have less developmental harmony with the state than local firms. However, a difference in the logic of public firms and local firms can also be drawn. Public firms in most counties have been considered "unlimited liability companies."[16] This is to say that profitability is not always the overarching concern in public firms. Whatever conclusion is drawn about the differences of local and foreign firms in terms of being swayed by nationalist logic, it is clear that there is great commonality between them in the area of globalist logic. All private firms seek to make a profit. The case studies illustrate this point. While the Brazilian state called upon public firms in Brazil to provide their goods to the private sector at prices that compromised their viability, the state never asked this of private sector firms. Brazilian public firms were made to be the "whipping boy" of the developmental alliance, particularly after the second oil crisis; and, consequently, they suffered proportionately greater hardship than the private sector. However, the Korean

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[16]Jones and Sakong, Government, 163.

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private sector engaged in modern forms of production and, after suffering for a short time, rebounded to become a star performer in Korea's economic recovery. Thus, the survivability of local firms may be greater because of their greater conformance to the principles of economics.

Finally, the performance of the public firms in Korea and Brazil is compared. Brazil had a public sector that eclipsed the foreign sector in its dominance over the economy. In Korea, public firms were used only to facilitate local private expansion into modern industries. If Brazilian public firms are less efficient that their Korean counterpart, the difference seems to be that the Korean state demanded a high level of economic performance from all its firms, while the attitude of the Brazilian state has historically been a more diffuse control. The research has revealed that in terms of institutions, developmental coalitions, economic policies, and economic development, the similarities in the case studies are stronger than the differences. However, some critical differences in these cases suggest some characteristics that helped Korea to develop more rapidly than Brazil. A conclusion is offered below in regard to this argument.

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CHAPTER VI
FINDINGS AND INTERPRETATIONS

This chapter summarizes the findings and offers some interpretations of them. However, before this is done, a review of the framework of the argument is in order. The composite hypothesis is that the most important institutions influencing development in the case studies are the states and firms. These institutions of the case studies enter into developmental alliances. Such developmental alliances have important implications for economic policy. Economic policy, in turn, is a primary determinant of economic development. Two thesis questions are posed: (1) *Why did both Korea and Brazil develop so rapidly?* and (2) *Why did Korea develop more rapidly than Brazil in the postwar period, particularly in the 1980s?* The project of this paper has been to apply the hypothesis to the case studies (Brazil and Korea) to determine if the hypothesis is valid to the historical process of development in both cases. A secondary project of this paper has been to establish a comparison of the two cases to ascertain whether the assumptions concerning the "ideal" characteristics that tend to maximize development on the periphery are applicable to the cases. If so, the thesis questions can be answered by these characteristics. This thesis argues that, to the extent that both conform to the ideal characteristics, the first question is answered; and, to the extent that Korea conforms better to the ideal than Brazil, the second question is answered.

The next few pages provide a summary of the findings of this thesis concerning the characteristics of the relevant variables (institutions, developmental coalitions, economic policies, and economic development). It was convenient to divide the developmental histories of the cases into two periods, the democratic of the 1950s and the bureaucratic-authoritarian period that lasted from the 1960s to the 1980s. The convenience sprang from the coincidence of regime sequencing found in both cases and the fact that major changes in the characteristics of some variables occurred between periods in each case. The first period is the 1950s' democracy through which both countries progressed. In this period, the institution of the state was not so different in both cases. Both Korea and Brazil had a semiautonomous state with an equivocal commitment to industrialization.

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Nevertheless, both states found it in their interests to intervene heavily in favor of industry most of the time. The technocratic component of the state was limited in its influence in both cases, but the technocratic component within the Brazilian state was more influential in policymaking than was so in the Korean case.

The institution of firms did show some interesting trends. Industrial firms in Korea came to dominate the dynamic center of the economy. In Brazil, industrial firms had already established hegemony over the economy. While Brazil and Korea became more alike in this respect, there were also strong contrasts with firm types. The dominant firms in Korea were small, light, local manufacturing firms that tended to operate in a semi-competitive market structure. However, the Korean economy also contained a kernel of progressive, local manufacturing firms that tended to be larger, more diversified, and dependent on corrupt favors from the state for a good share of their profits. The dominance of public capital diminished during this period as a wave of privatization diminished its ranks. Foreign firms did not hold significant shares of the market at this time. Brazil, by contrast, showed a trend toward large, diversified, oligopolistic, foreign firms controlling the dynamic sectors of the economy. Local firms were largely displaced or preempted from the dynamic sectors of the economy by foreign firm inflow. Still, Brazilian local firms--which tended to be smaller, less diversified, and competitive--continued to hold most of the domestic market for more traditional industrial goods. While public firms were privatized in 1950s' Korea, public firms were being established at this time in Brazil in the "strategic" sectors such as oil, power, and infrastructure. Brazilian state firms tended to be oligopolistic. Later, these firms would tend toward largeness and diversification, although initially their directives were narrow.

The dominance of different firm types within the economy paralleled the power of the different firm types within the developmental alliance which they entered into with the state. This thesis assumes that the state is the most powerful member of this alliance because of its monopoly on legitimate violence and in economic policymaking. Below the state, firms were the most powerful members of the developmental alliance in both cases. However, different types of firms proved influential. In Korea, dominant firms tended to be small, undiversified, light, local producers with a small--but important--contingent of

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larger, diversified, more modern producers. In Brazil, large, diversified, oligopolistic foreign firms experienced a dramatic expansion of influence within the developmental alliance. Small, undiversified, competitive, local firms experienced a proportionate decline in their power within the developmental alliance relative to foreign firms. Finally, oligopolistic public firms established an important foothold within this alliance. To some extent certain firm types seduced the state into a partnership in the developmental alliance. Though, to a greater extent, the state's independent initiatives created and coopted certain firm types as dominant members of the developmental alliance as well as hegemonic producers in the economy.

Out of the developmental alliances which these countries formed, specific economic policies emerged for each case. Economic policy also shows some similarities among the case studies in the 1950s. In both case studies, macroeconomic and microeconomic policies helped foster industrialization, though macroeconomic policies were used most heavily in both countries. Such pro-industrial policies were tempered by periods of stabilization (in both countries) and by counter-industrial policies favoring the agricultural elite (in Brazil). However, there were also some differences in each country's trade-linked developmental policies. Brazil pursued the policies of secondary ISI, which were associated with fostering the expansion of the foreign, large, oligopolistic firms in the more modern industries. Economic policy also favored the creation of public monopolies in a few sectors. To finance this expansion, the state pursued a policy to attract and maximize foreign loans. Korea relied on policies of primary ISI that encouraged the growth of local, small, competitive firms in light industries. with its micro- and macroeconomic policies. Simultaneously, the state favored the minute contingent of local, large, diversified, oligopolistic firms with primarily microeconomic policies. To finance primary ISI, the Korean state followed a policy to acquire and maximize foreign aid. In partial summary, this paper has emphasized several similarities of the characteristics of the independent variables as they occurred in the case studies. First, there were similarities between the cases' states in terms of interventionism, semi-technocracy, semi-autonomy, and sympathy for industry. Second, there was the similarity of firms as being the most important interest group in the developmental alliance with the state. Finally, there was

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the similarity of largely pro-industrial policies.

From the similarities in the independent variables sprang rapid economic developmeet via industrialization in both cases. Nevertheless, there were differences in economic development. Korea's expansion of light industry was a foregone conclusion. This was because foreign donors earmarked aid for light industry, ISI fostered the development of light industry, and Korea was at an early stage of development when light industry was the growth point. Similarly, Brazil's heavy industry (particularly consumer durables) was destined to experience the most rapid growth. This was because foreign loans were channelled to heavy industry, foreign firms entered this area as a result of secondary ISI and other subsidies, and traditional industry had reached the outer limits of its dynamism (meaning one of the next logical steps was the development of heavy industry). Both countries experienced rapid industrialization, but Korea's was of the horizontal variety, while Brazil's was of the vertical kind.

After these countries entered their B-A periods, the cases also showed some striking similarities and subtle divergences in terms of institutions, developmental coalitions, economic policies, and economic development. With the arrival of B-A, the institution of the state became more autonomous and technocratic in both cases. However, both the autonomy and technocracy of the Korean state was greater than it was in the Brazilian. Differences can also be seen in the trends in autonomy and technocracy over time. Brazilian state autonomy and technocracy peaked during the first decade of military rule and declined thereafter, but Korean autonomy and technocracy peaked during the second period of military rule. Both states continued to intervene in favor of industry, but Brazilian intervention was more equivocal and less effective.

The institutional component of industrial firms also showed some interesting comparative trends during the B-A period. In Korea, local firms continued to be the dominant form of productive unit. However, the type of local firm changed over time. During the 1960s, the dominant local firm in Korea was inclined to be small, competitive, undiversified, light, and export oriented. During the 1970s, the dominant local firm tended to be larger, more diversified, oligopolistic, and more geared toward domestic production than its predecessor. Public firms increased their shares of output but never came close to

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eclipsing the dominance of the local firm. The state allowed a minority of foreign firms to enter Korea under strict regulations that ensured their contribution to national developmeet and their servitude to the interests of large local capital. In the early 1980s, large local capital began to suffer. The state reaffirmed its alliance to large local capital by a bail-out plan that prevented widespread bankruptcies. The state intensified oligopolization as it carved the carcasses of modern industrial complexes that had been badly managed and tossed these industries to deserving members of the private sector. After the heavy industry sector recovered, it became more export oriented.

Though Brazilian dominant firms during the B-A period were large, diversified, oligopolistic ones, like the ones in Korea in the 1970s and 1980s, there were also some important differences. In the first years of Brazilian military rule, the dominance of industrial firms in the economy receded as stabilization policies caused a deep recession in the economy. Such policies also muted the dynamism of different firm types so that the division of labor between local, foreign, and public firms remained largely static. In the late 1960s and early 1970s, industrial firms forged the triple alliance. Such alliances were forged through joint ventures. Foreign firms dominated the center of this economic alliance with technology, diversification, and large firm size as their chief assets. The public firm experienced rapid growth and was the second most valuable partner with their assets being political connections, large firm size, and willingness to produce inputs for the foreign firms at a low price. Other members of the joint venture invited the participation of local capital because local firms offered the alliance their political connections and more manual, less technological services. Foreign firms became more export oriented in response to generous subsidies for exporting. In the early 1970s, public firms expanded rapidly in response to a deepening initiative from the state and technological help from foreign firms. This profoundly changed the productive alliance as public firms enveloped larger economic shares and foreign firms declined proportionately. Local firms held their own in the economy. When the second oil crisis struck, the more modern firms were the first to suffer. The state tried to localize this suffering within the public firms; but, due to the extreme integration of firms, the recession leaked out to other firms. While firms became more export oriented, they also faced prolonged hardship in the 1980s.

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Again, the dominance of firm type in the economy reflects the dominance of form type within the developmental alliance. In both Korea and Brazil, the state was the most powerful member of the developmental alliance with its monopoly on legitimate violence and economic policy making. To some extent certain firm types pursued the state into a partnership in the developmental alliance. To a greater extent, however, the state's independent initiatives tended to create and coopt certain firm types as dominant members of the developmental alliance and powerful producers in the economy. Below the level of the state, the most powerful members of the developmental alliance were industrial firms. Nevertheless, there were differences in the types of firms with which the state forged its primary alliances. In Korea, this meant that local capital was influential within the developmental alliance throughout the B-A period. In Korea, small, light, local firms operating in a competitive setting were the most influential in the 1960s, while large, heavy, local firms in an oligopolistic setting were important in the 1970s and 1980s.

While Korean local capital may have been a powerful player in the developmental alliance, local capital in Brazil never rose above a tertiary status in the developmental alliance. Another contrast between these two countries is that, in Korea, industrial firms always held an important place in the developmental alliance; but, in Brazil, during the early years of the military regime, other interest groups besides industry (particularly the IMF) were influential in the developmental alliance. However, in the late 1960s and early 1970s, foreign firms regained their dominance and public firms gained dominance in the developmental coalition. After the early 1970s, public firms eclipsed foreign firms in the developmental alliance. The power of the public firms in the developmental alliance diminished monumentally as the IMF took a favored position within the developmental alliance and attempted to put Brazil's financial house back in order.

Economic policies during the B-A period also show some interesting points of comparison for the case studies. Microeconomic policies were frequently used in both cases, but the types of microeconomic policies differed. Brazil used direct intervention via public firm expansion into more modern industries during the 1970s, while Korea relied heavily on reciprocal credit subsidies that demanded conformance with export or modernization targets to qualify for subsidized loans. Brazil also used credit subsidies, but such

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subsidies were mostly unidirectional, not reciprocal. In Korea and Brazil, macroeconomic policies became more conservative during the first decade of military rule, but pro-industrial macroeconomic policies proliferated during the 1970s. Brazil used the less effective macroeconomic manipulation more heavily than the more effective microeconomic intervention, since its microeconomic subsidies, being unidirectional, were less effective than Korea's microeconomic policies were.

The contents of the trade-linked developmental policies of the case studies show a surprising degree of similarity and some minor dissimilarities. Policies in both countries facilitated the rapid accumulation of foreign debt to finance different stages of such developmental policies, leading to both countries being the most heavily indebted countries in the world during this period. Policies in both countries during the initial years of military rule focused on increasing export orientation and stabilization. Brazil concentrated more on the stabilization side; however, while Korea focused more on achieving increased industrial exports. While Korean policies continued to be pro-industrial in the initial years of military rule, Brazilian policies in the formative years of military rule were not. In the late 1960s and early 1970s, the Brazilian policy converged further with the Korean as Brazil joined Korea in developing policies that encouraged utilization of industrial excess capacity. In Brazil, the state did this by loosening monetary policy that encouraged expanded consumption and offering incentives for firms that increased their exports. In Korea, the latter continued to be the primary emphasis. Both case studies in the 1970s employed policies that encouraged the expansion of large, oligopolistic firms producing heavy industrial products. The Korean state aimed this policy at local firms, while the Brazilian state directed such policy at public firms. In the 1980s, both countries experienced economic hardship and resorted to stabilization and liberalization. While Brazilian policy showed little more to its policy than these aims, Korea overlaid such policies with unorthodox intervention that partially contradicted the stabilization and liberalization policies and provided a supportive environment for industry.

In partial summary, it was emphasized that both the Brazilian and the Korean states gained autonomy and technocracy after the onset of B-A and intervened heavily in favor of industry. This paper also submitted that the state in both cases formed a primary

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developmental alliance with industry. This research relayed the fact that industry, in both cases, during periods of secondary ISI, tended to be oligopolistic and large. Finally, this study found that, in both cases, policies contained a mixture of macroeconomic and micro-economic tools which at times fostered import substitution and export promotion. These similarities in variables contributed significantly to the rapid economic development that was experienced by both countries.

However, Korea's development was more rapid than Brazil's. The contention is that Korea's higher level of economic development was achieved by coming closer to the "ideal" characteristics that predispose a country to achieve maximum development and to overcome market failures on the periphery. Korea's state was more technocratic and autonomous than Brazil's. Korea built its industrialization around the local firm, while Brazil based its industrialization on foreign and public firms. In terms of the developmental alliance, it is likely that Brazil's strong influence of foreign capital made a less harmonious alliance with the state. This is because of the varying logic the state (nationalist logic) and foreign firms (global logic) bring with them. Because the Korean develop-mental alliance contained parties (state and local capital) that were both more conducive to nationalist logic, policy incentive and firm response could proceed on a more even course than was the case in Brazil. In terms of overcoming market failure, local capital tends to be better than other forms of capital. The local firm normally keeps its profits at home and seeks to acquire technology, while the foreign firm is inclined to remit profits and keep technology transfer minimal. Also, local firms are better attuned to market signals and profitability than public firms. Pro-industrial intervention in the Korean case was more profound than in the Brazilian because of Korea's greater use of reciprocal microeconomic interventions. Korea engaged in stabilization (which did not encourage industrialization) less singlemindedly than Brazil did. Moreover, Korea was more singleminded than Brazil about intervention. While Brazil sometimes intervened on behalf of other interest groups besides the industrial, Korea never strayed far from pro-industrial intervention.

The developmental patterns in the B-A phases of both countries showed some similarities and differences in response to the similar and different institutional, alliance,

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and policy influences. In the initial phase of B-A in Korea, economic policy reached out to the light local manufacturer to fill excess capacity by intensive export behavior. This resulted in a capital accumulating phase in the light industries. However, the Korean state in the primary EOI phase also used policy ministrations, to a lesser extent, to encourage large local capital to diversify and modernize its industries. Consequently, both capital accumulation and modernization were facilitated. In the early years of the military regime, the state felt that industrialization had been pushed too far by democratic governments. As a result, the state adhered to stabilization policies. The outcome was recession. In the late 1960s and early 1970s, capital accumulation was facilitated by filling excess capacity, by increasing exports, and by encouraging domestic consumption. Such policies resulted in the most dramatic surge in industrial growth that Brazil had ever experienced. To a lesser extent, the state encouraged industrial modernization and diversification through secondary ISI resulting in a rapid deepening of industry. While economic development during the Brazilian and Korean military regimes started very differently, Brazil soon developed a level and a substance of economic development bearing close resemblance to Korea's.

In the 1970s, these countries engendered a substance, if not a level, of economic development that nearly matched. Both countries channeled foreign credit into more modern industries. Policy ministrations in Brazil were directed toward expansion and diversification of public firms, while Korean policies encouraged the expansion and diversification of large local capital. While public firms became large in the economy, industrial modernization progressed at a much slower pace than it had during the miracle years. Such modernization in Brazil also progressed at a much slower pace than it did in Korea. Part of the explanation for Korea's faster modernization lies in the advantages of Korea's local, private firm expansion as opposed to Brazil's public firm expansion. Another part of the answer lies in the fact that Korea used its microeconomic policies to coerce firms to meet modernization targets. Policy coercions were less widely used in Brazil. Brazil relied more heavily on the pure subsidy method.

In the 1980s, Brazil and Korea experienced economic hardship in the wake of the second oil crisis. Korea and Brazil both responded with liberalization and stabilization.

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However, the Korean state, still faithful to its allies in the productive sector, responded with reorganization, bail-outs, and export push policies that helped this country recover growth in the industrial sector. Brazil, under a greater debt burden, both because its debt was secured under more unfavorable terms than the debt Korea had acquired and because Brazil's more inward orientation made foreign debt harder to repay, had to succumb more fully to IMF-style austerity plans. Such plans left little room for policies of industrialization promotion. As a result, the 1980s are sometimes called the "lost decade" for industrialization in Brazil. Though this paper has made several assertions about the qualities that are conducive to the maximization of development, these deserve some qualification.

First, this paper has emphasized that a technocratic, autonomous, interventionist state can aid LDCs in overcoming market failures. Nevertheless, this project does not imply that authoritarianism is a necessary component of heavy state intervention. Authoritarianism carries with it social costs that may more than counterbalance economic gains. In Korea's first decade of military rule, repression of society was not extreme though control of economy may have been. In cases such as these, one is tempted to applaud the benefits of military rule. However, encouraging authoritarianism is not acceptable since, once an authoritarian regime is in power, there are few controls on social repression. In addition, as was shown by the case of Brazil, authoritarianism does not necessarily lead to superior levels of economic development compared to those that can be produced by democratic regimes. Some insulation of the technocracy from the broad spectrum of interest groups may be conducive to faster development than would otherwise be the case. Furthermore, some leadership role from the state over the private sector may drive development faster than a followership role from the state would. But the leadership role need not be extreme: Even governments that mix their allegiances with the industrial elite and the various social sectors and enter a partnership role with the industrial elite have potential for a moderately fast rate of economic development. However, the cases of Brazil and Korea imply that other developing countries can maximize their development by an insulated, technocratic, leadership state.

Second, despite the contention that local firms are preferable to foreign or public firms, one should not interpret this paper as promoting a policy of expropriation of foreign

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firms. Nor should one come to the conclusion that it is appropriate to effect the hasty sale of public firms to private buyers in countries that have a large concentration of foreign and/or public enterprises. Countries that do sell their public enterprises to the private sector should make sure that these enterprises fall into the hands of competent, local entrepreneurs to maximize development. A radical plan of confiscation of foreign firms would lead to the country's being ostracized globally and would result in economic suicide. However, nowhere is it written that countries which have a large contingent of foreign firms cannot work with these firms and insist that developmental goals are addressed. The comparison of Brazil and Korea implies that large, diversified, oligopolistic firms concentrated in the local sector maximize long-term development in the secondary EOI and secondary ISI phases.

Finally, though this paper has contended that microeconomic policies are more effective than macroeconomic policies, this does not mean that this paper contends that a late developing country should not pursue wise macroeconomic policies as well. A late developer must realize, however, that both policy tools should be used with caution and with the recognition that each has its pitfalls. Macroeconomic distortions, if used in excess, can contribute to balance of payments problems and inflation.[1] Microeconomic policies, if used unwisely, can lead to economic havoc. Even with this said, a combination of microeconomic and macroeconomic interventions may be necessary in most developing countries to help their economies progress past market failures. Industrial policy is more crucial for countries in the initial stages of their drive to industrialization than at the end of this drive. Nevertheless, if the economy of one of these newly industrialized countries ever takes a drastic downturn, it may be wise for the state to bring technocratic expertise and intervention swiftly to bear on the problem. The case studies suggest that pro-industrial, microeconomic, and macroeconomic policies that offer protection from imports and encourage exports give the LDC the optimum chance for economic development.

In conclusion, one issue still needs to be addressed in future research. This paper

[1]Ironically enough, in the 1980s, the primary problem Brazil had was not inflation caused by its plentiful macroeconomic distortions but inflation caused by structural factors. In this case, state discipline of its social groups who were fighting for shares of wealth would have been a preferable alternative to macroeconomic orthodoxy.

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has limited itself to discovering the characteristics that led Brazil and Korea to develop rapidly as well as the characteristics that led to the minor differences in economic development in these cases. This paper has not inquired into the ways that the findings presented here can be applied to still less developed countries. Can less developed nations learn from the progress of these two NICs? Can the political economic models represented by Korea and Brazil be adapted to other developing countries today? Could these models be analyzed for specific interventions that would successfully mold economic development in other developing countries? If the Brazilian models can be adapted to other cases of development, they must be adapted with care. Models that operated well within the political and economic framework in Korea and Brazil may not function as well in countries where political and economic conditions differ markedly. In addition, models that worked well in the past context of global economic and political conditions may not be well suited to the present such context. Nonetheless, there are obvious, urgent reasons for further study in this area.

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VITA

In August 1991, Charles Paul Winebarger graduated Magna Cum Laude from East Tennessee State University at Johnson City, TN with a major in political science and minors in art and sociology. While at this university, he published an essay in the Mockingbird, the University literary magazine, and participated in the State Legislative Internship Program. He moved to Norfolk, Virginia and enrolled in the International Studies program at Old Dominion University. The address of the program is Old Dominion University, Graduate Programs in International Studies, Batten Arts and Letters Building, Room 621, Hampton Boulevard, Norfolk VA 23529. At this time, he worked at the Norfolk Botanical Gardens as a tour guide for a year before he was promoted to Assistant Manager of Tour Operations. The following year, he accepted a position at Old Dominion University as a graduate teaching assistant. In 1994, he moved back to Tennessee where he worked a part time job at Johnson City Medical Center and worked toward completion of his thesis. In the summer of 1995, he attended the Goethe Institute in Schwabisch Gmund where he studied German language and culture. In 1997, he moved back to Norfolk so he could stay in better contact with his thesis committee and director. He was rehired at the Norfolk Botanical Gardens and plans to remain there while he looks for employment in his field. He graduates in June, 1998, from Old Dominion University with an M.A. in International Studies.

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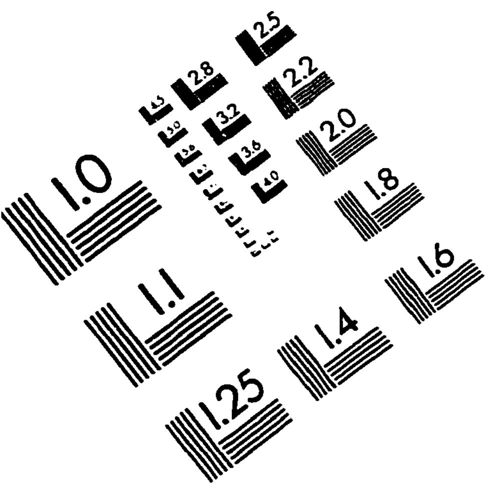
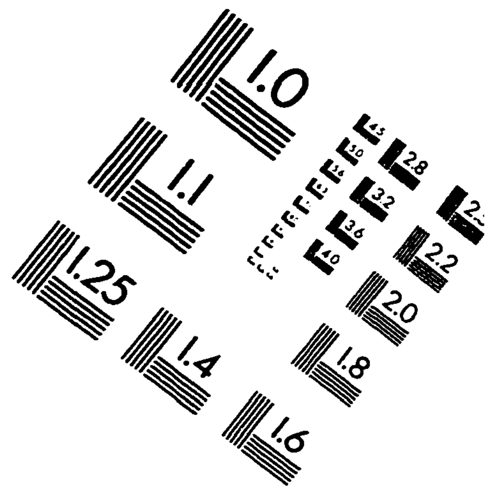
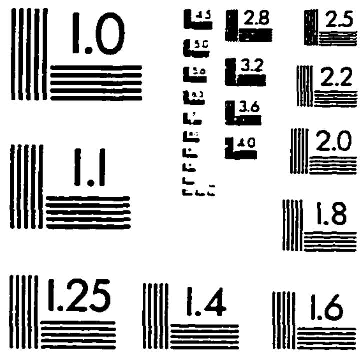
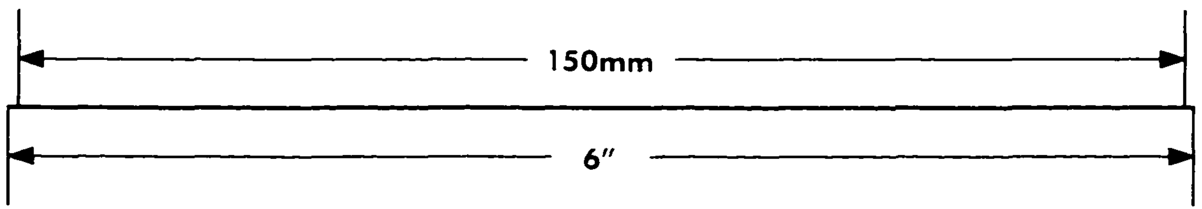
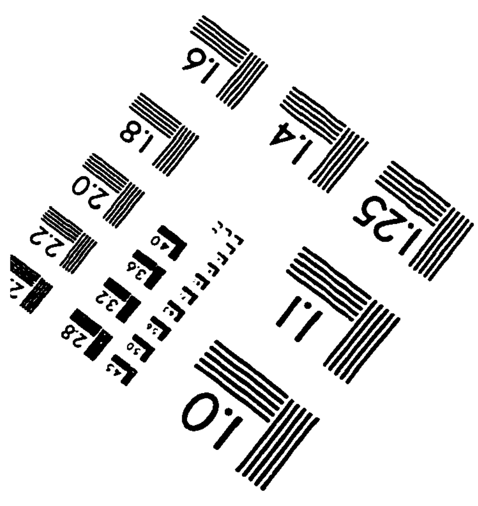
IMAGE EVALUATION TEST TARGET (QA-3)

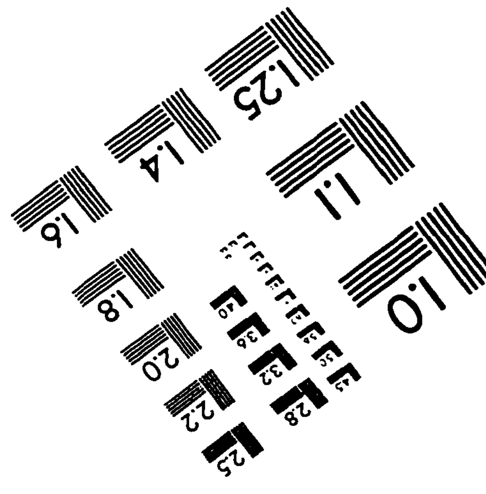












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