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Modernization and Development: An Empirical Study of South Korea and Brazil

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Preface

For nearly 45 years since the end of the Second World War, the United States and the Soviet Union have engaged in a war of words (with some deeds, carried out in the Developing World.) In the late 1950s and early 1960s, there was a considerable amount of debate over which system would dominate the world. Each side presented their relative merits vis-a-vis the other. Many people today remember the tense debates in the United Nations during the Khrushchev years, where the Soviet Premier banged his shoe on the table and shouted "we will bury you" when confronted by western ideology. The "Kitchen Debate" between Khrushchev and then-Vice-President Nixon also gripped a world debating the economic arrangements of the future.

With the tearing down of the Berlin wall and the crumbling of the Warsaw Pact, many in the West are proclaiming victory for capitalism and democracy. But this victory for capitalism does not mean the economic hardships of the developing world should go unnoticed. Capitalism may be successful for the Wall Street banker in New York City or the Plant Manager in Tokyo, but for the sugar-cane laborer in Bahia, Brazil or the mine-worker in the Shaba region of Zaire, the fruits of victory taste not so sweet. Obviously, the policies of the post-war era have brought little but hardship to millions in the world.

Now is a unique time to reassess the characteristics of the theories which dominate Western economic advice. With President Bush postulating his "New World Order," the developing nations

will want to benefit from his vision. No longer may Western leaders hide their disinterest in Third World economic development in Cold war rhetoric. With East-West issues decreasing in importance, the rise of North-South issues will dominate the international agenda. The United States must address these issues, or they face greater isolation from a vastly more-powerful "Group of 77." Finally, with the advent of television, scenes of extreme poverty are readily accessible to everyone. Therefore, the United States can no longer disassociate itself with the economic problems of the Third World. It is against this backdrop that I write this thesis.

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Contents

List of Tables

Introduction

The United States has both the moral responsibility and a practical interest in economic development in the Third World. Morally, the U.S. and its Western allies have responsibility for two reasons. First and foremost, we have postulated that our presence in the Third World would benefit the entire world. Economic interdependence is thought to be one of the true assets of free trade and economic assistance. Unfortunately, the optimism within the General Agreement of Trade and Tariffs (GATT) and the International Bank for Reconstruction and Development (IBRD, or World Bank) have little empirical evidence to support their claims. The U.S. has promised economic development to the Third World as reward for strong ties with the West. The Third World has legitimate demands for that development.

Secondly, the world is truly becoming a global village. As poet John Donne wrote centuries ago, "Ask not for whom the bell tolls, for it tolls for thee." At the end of the 20th Century, the world must fully recognize that the death of one person because of poverty or underdevelopment is a loss for the entire world. This poverty must be alleviated through true economic development. The United Nations, through the Universal Declaration of Human Rights, has recognized each nation's inherent right to develop.[1] For these human rights considerations, the United States has the moral responsibility to foster Third World development.

The U.S. also has significant practical reasons for

supporting Third World development. Promises of economic aid were crucial in the Bush Administration's forging of an anti-Iraq coalition in the Persian Gulf War of 1991. Also, true development would make the nations of the world stronger allies to the West. Increased economic productivity in a diversified economy would make these nations stronger trading partners. Finally, the U.S. must move beyond its short-sightedness in its policymaking. All to often, these short-run considerations have made Third World leaders enemies of the U.S. when they should not be.[2] These considerations must weigh heavily in the minds of American policymakers as they postulate the "New World Order" to which President Bush so often refers.

Sadly, aid had been granted too often with Cold War considerations in mind. True economic development has been disregarded for short-term goals and military assistance in times of crisis. With the thawing of the Cold War and the renewed interest in the Third World, a drastic rethinking of economic development questions will be uniquely relevant for the coming decades. Because the theories may no longer be sufficiently wrapped in Cold War, anti-Communist rhetoric, U.S. policymakers must consider new ideas. With this backdrop in world events, now is the proper time to review the literature concerning economic development, and ask the question: Have the policies prescribed for the Third World proven beneficial? This is the main purpose of this project.

History holds a great deal of evidence as to the most

prudent policy prescriptions for economic development. Because of a lack of sufficient proof of any of the economic theories propounded to date, a trial and error method is perhaps the only possible approach to economic development questions. We must learn from past successes and failures. This is why a largely historic account of the economic policies of the two countries I detail in this thesis is necessary. In other words, we must learn from history.

This account begins by reviewing the literature on economic development. Walt Whitman Rostow, with his work Stages of Economic Growth, ushered a new age of writing on "modernization theory." His subtitle A Non-Communist Manifesto suggested that his was the alternative to Marxism. His work spawned a great deal of literature on the issue. The Kennedy and Johnson Administrations in particular used Rostow and colleagues to justify further aid to the Third World. Rostow's assumptions still linger today, and deserve to be addressed.

I wish to place these assumptions in an empirical light by using two case studies: South Korea and Brazil. The first is that they represent two different continents. In this way, I hope to call the global nature of the theories into question. In other words, the prescriptions for the Pacific Rim may be quite different than those for South America. I have also chosen these two nations because they represent caricatures of different levels of success. South Korea appears to be one of the greatest successes of the 20th Century. Many a theorist has argued the

economic power has shifted to the Pacific Rim, of which South Korea plays an integral role. Brazil is a telling case because it was, too, a major success story. But the weight of economic development fell upon that nation, producing a huge debt which is serviced only through hardship and extreme inflation. Perhaps the mistakes of the "Brazilian miracle" can be avoided when South Korea faces its economic decisions. The two nations also present a challenge to show that Korea will not fall under the weight of its own debt and face the same future an Brazil.

Finally, I hope to offer prescriptions for nations wishing to develop. Most importantly, I hope to offer insight to American policymakers wishing to join in the economic development of the Third World. But I would like to stress the need to listen, as well as advise. All too often, Americans assume they are correct in their assertions and listen far too little to the very people they wish to help. These are simple observations and suggestions by an American student. Take them at that value.

Chapter 1:

Modernization Theory

The most important theory coming out of Western institutions is the modernization theory. It states that the nations of the Third World have yet to develop, but it is a historic process that must take place within each individual nation. The developed world has little or no impact in the underdevelopment of these nations, and they must take steps themselves to develop. The West has a role to play in the development of these nations, but it is a supplementary and a supportive role.

The Intellectual Roots of Economic Development Theory

Most of the modernization theorists were influenced by the work of sociologist Max Weber. In his famous work The Rise of Protestantism and the Spirit of Capitalism, Weber argues that religious ideology drove Western Europeans to embark in business ventures, and served as the driving force behind capitalism. Fear of God produced love of material wealth. Therefore, it is Protestantism that explains why the Western Europeans are so far more advanced technologically than the rest of the world.

Particularly important in this ideology is the thought of John Calvin. Calvin argued that God had predestined everyone who had been saved. The only way a person could learn of his salvation was through economic success. Therefore, Calvinists worked long hours trying to prove their salvation. It is from this work ethic that capitalism was born.

It is from this vein that the modernization theorists embarked on their theories of underdevelopment. A great deal of the focus was, and continues to be, on the spirit of entrepreneurship. Capitalism is based on risk. This willingness to take a risk forces a nation out of the clutches of backwardness and enables it to embark on development. But, there is no reward for the coward. Therefore, this spirit of entrepreneurship must be built of the nation is to develop. This central tenet of liberalism flows through the entire body of literature produced by the modernization theorists.

The Liberal Context

So, as stated above, American economic development theory is deeply rooted in the liberal tradition. This should not be surprising. As Karl Mannheim suggests, each person is driven by his/her ideology. It is impossible to separate the person from the assumptions under which (s)he is operating.[3] American policymakers are no different. The U.S. has been an economic success story, which in turn gives it an specific ideological hue. This context colors the prescriptions offered by both the theorists of economic development as well as the American policymakers who use the theorists to justify their policies.

Robert A. Packenham, borrowing on the work by Louis Hartz in his famous work The Liberal Tradition in America, has identified four liberal assumptions which dominate economic development theory. These four are:

1. Change and development are easy.
2. All good things go together.
3. Radicalism and revolution are Bad
4. Distributing power is more important than accumulating power.[4]

I believe these assumptions deserve further discussion.

Change and development are easy is a concept derived from that fact that Americans were "born free." That is to say, it took little or no fundamental change in the social structure of the U.S. to bring about its revolution.[5] This has been described well by the historical schools of "American Exceptionalism." The colonists at the time of the Revolution were not calling for a radical change in their social structures. On the contrary, they were simply demanding the rights of Englishmen. The outcry against taxation without representation in Parliament suggests that, if given the right of representation, the American colonies would have remained loyal subjects of the Crown. Therefore, when the United States declared its independence, it had to do little more than defeat the British and their task was to be accomplished. After the Battle of Yorktown in 1783, the revolution was essentially completed.

Also, the United States was blessed with two geographic advantages which fuel this belief. First, basically the entire continent was at the American disposal. There were no great empires on the North American continent, and a large expanse of land with which to develop. This fueled the American concept of Manifest Destiny, which in turn drove Americans to move West.

Save the massacre of thousands of Native Americans, a moral question not to be raised in this thesis, Americans secured the land with little or no difficulty. Combine this with the reality that most of this land was fertile and well suited for development, the U.S. had quite the head start on other nations' economic development.[6]

This historical context colors what Packenham refers to as Americans "proclivity to tinker."[7] Incremental change is always to be preferred. Americans are essentially problem-solvers. If there is a problem, there must be a solution. All it takes is the interest and the knowledge to solve these problems, and they will be solved.

Never was this attribute more apparent than when Truman's Point Four Program was announced. Truman's intent when developing a program for Third World assistance was to "raise the living standard of the Third World just 2%." If that could be accomplished, then markets for U.S. goods would increase drastically.[8] It never occurred to Truman what true development would entail, and what sorts of programs would best induce development. Instead, it was assumed that this change would be relatively easy.

This proclivity to tinker concretely produces a four-part process of project evaluation. First, policymakers focus on compliance control. This involves an observance of legislative and administrative requirements for a project to be implemented. The next focus is on management improvement. This follows from

the premise that corruption and laziness, coupled with a lack of expertise, cause the majority of problems in Third World development. Assign "a mover and a shaker" to the project and the work will be done. The next step is an assessment of project implementation. Here, the question is: Can the project be accomplished? The final focus is on the general assessment of whether this project will actually contribute to the development of the nation. Packenham refers to the entire process as the "aha!" approach. A person looks at the problem, shouts "aha!" when he discovers the problem, and then implements the proper policy.[9]

There is little or no discussion on whether or not the problem is actually solvable. This follows from the assumption that change and development are easy. The true complexities of the problem are placed aside as the most efficient course of action is plotted. Unfortunately, this approach often results in wasted time, energy, and resources on a project which, when completed, resembles little like it was originally conceived. In addition, the project seldom has the impact desired.

Americans are also deluded into believing that all good things go together. Concretely, this means that the prudence of economic development, especially in terms of growth of GNP and the incorporation of the entire nation in the economy is never called into question. We often disregard the costs of these actions when we consider the value of economic development.[10]

Examples of cases where all good things may not go together

would be when traditional society is destroyed in an attempt to modernize the economy. I cite the destruction of the Native American and of the Aztec and Inca nations during European colonization as historical manifestations of this disregard for tradition. Currently, the Brazilian government is destroying Native tribes in the Amazon for the purposes of development, while the Chinese "Great Leap Forward" and Stalin's purges of the peasantry are further manifestations of this type of disregard for tradition. Obviously, in these cases, not all good things went together. Or, to be more precise, bad things often go with good things. Unfortunately, Americans have little sense of their own history, which explains the importance of this premise.

Also, development in macroeconomic terms is often seen as absolutely positive development, because of appeals to this premise. A rise in GNP is seen as positive because other positive aspects were sure to follow. Therefore, little attention was paid to the human cost of authoritarian capitalist development in Brazil in the late 1960s and early 1970s, because of the tremendous economic growth. This neglect cost the Brazilian people a great deal.

The third premise, that radicalism and revolution are bad, has driven the U.S. in the arms of conservatives throughout the world. True revolution (not the U.S.) is a "rapid, fundamental, and usually violent change in the dominant values and myths, political institutions, social structures, leadership, and governmental policies and activities of a society."[11] Coups, by

contrast, are simple changes of authority. This is why the U.S. often supports coups, especially those of right-wing, counterrevolutionary groups, while opposing revolutions. It is neither violence nor atrocity that the U.S. opposes. It is a fundamental change in the status quo.[12]

The fourth premise, that distributing power is more important that accumulating it, is fundamental in American prescriptions for governments of Third World nations. American policymakers oppose single-party governments, dictatorships, and the like because of the inherent need for checks and balances. But, as Packenham asks, there are two relevant questions with respect to power. First, How much power is there? Second, How is power distributed? Americans are obsessed with the second question, but neglect the first.[13] To distribute power in a weak national government to disastrous.

An example of this disaster is the infamous "rule by coronel" in Brazil during the First Republic, as well as the power of the caudillo throughout Latin America. The national government in Rio had very little relative power, while the coffee and sugar barons controlled their lands in a quasi-feudal system. The same is true of the rule by warlord in China following the Revolution of 1911 and of tribal rule throughout the African continent. The government must focus on accumulating power over the economy, and then modernize these sectors, before there is any serious consideration of distributing power.

With these four assumptions in mind, there were three main doctrines to American development policy. The first and most influential was the Cold War doctrine. Aid was seen in realpolitik terms, as an incentive to support the U.S. on policies against the Soviet Union.[14] In more direct terms, aid was used first to bribe the Third World nation into supporting the U.S., and then to addict that nation by creating a dependence by that nation on the U.S. Packenham suggests that the Kennedy Administration was less guilty of this practice,[15] but I find little or no proof to support his claims. The Alliance for Progress was known throughout Latin America as the Castro program, a sign that Kennedy's motives were quite clear.

The second doctrine was the economic doctrine. Specifically, economic development was defined in terms of growth per capita product.[16] This means that the GNP, GDP, and NNP, all macroeconomic considerations, were the primary focus of economic development. This explains why the U.S. throughout the 1980s could consider Nicaragua an economic failure when access to medicine, drinking water, and the level of literacy all rose under the Sandinistas.*

Political development, a significant "spin-off" aspect of the economic doctrine, was also concretely defined. Development in these terms meant anti-communism, stability, "world

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* This is not to discount the ideological considerations behind American criticisms. But I believe the discrepancy between macroeconomic considerations and the quality-of-life considerations help explain American assertions which are backed up with "facts" produced by economists.

community," peace, pro-Americanism, and democracy. Obviously, the Cold War considerations weighed heavily in evaluation of political development.[17]

The third and least influential doctrine was the democratic doctrine. This was most evident in the Title IX program, which was a Congressional initiative during the Johnson Administration. It called for aid to be used through democratic institutions, so as to strengthen those institutions. Johnson supported the legislation, but his disinterest in initiating the bill showed his lack of concern for democratic principles vis-a-vis realpolitik and Cold War considerations.[18]

These were the assumptions and doctrines that followed from those assumptions. I will next discuss the intellectual roots behind the formulation of these policies, as embodied by the forefather of modernization theory, Walt Whitman Rostow.

Rostow and the Stages of Economic Growth

In the 1950s, while Marxism appeared to be gripping the developing world, American academicians searched for an explanation of capitalism that stressed its more humane points. It is out of this context that the famous work Stages of Economic Growth appears. Its author, Walt Whitman Rostow, was teaching at the Massachusetts Institute of Technology (MIT) in the 1950s and early 60s.[19] His thesis would have profound effects on American

policymakers throughout the Cold War period.**

Rostow's purpose for Stages was an response to the economic determinism in Marxism writing. Stealing a page from Marx's work, Rostow identifies five stages of economic development.*** These five stages are as follows:

1. The traditional society
2. The pre-conditions for take-off
3. The take-off
4. The drive to maturity
5. The age of high mass-consumption.[20]

According to Rostow, each nation must pass through each of these five stages in the order that he presents them.

The traditional society roughly corresponds with our concept of the feudal society of the Middle Ages. Rostow describes this society as one with heavy emphasis on agriculture. This agriculture is essentially sustenance-based, although he does suggest that a minimal amount of trading will take place. There is little economic contact with the outside world, and the farmer's main concern is producing a sufficient amount of his product to feed his family.[21] This type of economic activity corresponds to the social structure of traditional society.

Because of the influence of sustenance farming, coupled with the heightened role of the family, it is not surprising that traditional societies are based on hierarchical social

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* The most important of these influences was President Kennedy, whom Packenham refers to as a proponent of the Charles River Group.

* Marx conceived of different stages of economic growth, passing from feudalism to capitalism to communism. It is from the premise of stages that are universally applicable that Rostow proceeds.

structures, with the father at the top of the scale. These social structures lead to a vertical immobility in society. This thought is a sort of fatalism that declares that I will go no farther than my father did. This discourages entrepreneurship, which is the driving force of capitalism.[22]

Rostow identified four types of underdeveloped nations, not all of which were traditional in nature:

1. Pre-take-off economies: Savings and investment rates, including limited net capital imports, are under 5% of the net national product (NNP, or everything produced in that nation for a given year.

2. Economies attempting take-off: Savings and investment rates over 5% of NNP.

3. Growing Economies: Savings and investments have exceeded 10% of NNP.

4. Enclave Economies: Savings and investments exceed 10%, but domestic conditions not conducive to take-off.[23]

Obviously, the spirit of entrepreneurship, as exemplified through savings rates, are the most important considerations for a nation's capacity to develop. This is a phenomenon I will discuss more fully later in the chapter.

There eventually comes a point in a nation's development where it witnesses the preconditions for take-off, the second of Rostow's stages of growth. He sees this stage as usually brought not from within, but from without. Wars, famines, and even the occupation of a nation are common impetuses for growth. Invasions from without shock the traditional society into accepting that development is required for something desired.[24]

An example of this type of impetus was the forced opening of the Japanese ports by American Matthew Perry in 1854. Fearing domination by the West, the Japanese quickly thrust aside many of the traditions of the Tokegawa period, or the period of Japanese feudalism. In a short 14 years, there was a revolution (the Meiji Restoration), and a drastic shift in the social structure soon followed. These measures set the preconditions for take-off, which began for Japan in the late 19th century.

The preconditions include a broadening of education, the increase in volume and prestige of banking and commerce, and an increase in investment. Education must be broadened so that the aristocracy of traditionalism may be replaced by a meritocracy. The nation's economy must be managed by the best and the brightest. Banking and commerce increase in direct proportion to the increase of investment. Entrepreneurs must be willing to invest their capital not in land, but in commercial ventures. Banking facilitates this drive to capitalism.[25] Once again, like most of the modernization theorists, Rostow focuses his theory on the spirit of entrepreneurship.

The next and most important stage for Rostow is the take-off. This is when the major thrust of industrialization and development takes place. In Rostow's own words, "Growth becomes a natural condition."[26] New industries expand rapidly, while new capital is invested for this industrialization. Growth rates shoot through the roof, and government investment into the economy should be minimal. Except for political "growing pains,"

such as a conservative backlash against the uprooting of traditional society, the nation grows relatively quickly.[27]

Whether a nation is prepared to take-off became the most important consideration for Rostow and his colleagues. Studies were produced showing the capacity for a nation to "absorb" the investment from the West. Once the take-off began, the West need not extend an excessive amount of aid to the nation. This type of policy was only beneficial for a nation to build and recognize the preconditions. The take-off was a period of self-sustaining growth This period of take-off would last around 40 years. Following this period, the nation then drives to maturity. Technology improves, and new industries accelerate. The economy then diversifies, so that the new-found growth is not as vulnerable to the whims of the market. Goods formerly imported are now produced at home. In this statement, Rostow supports the concept of import-substitution industrialization. The nation becomes more self-sufficient.[28]

Maturity is defined by Rostow in the following way:

> the stage in which an economy demonstrates the capacity to move beyond the original industries which powered its take-off and to absorb and to apply efficiently over a very wide range of its resources -- if not the whole range -- the most advanced fruits of the (then) modern technology. This is the stage in which an economy demonstrates that it has the technological and entrepreneurial ability to produce not everything, but anything it chooses to produce.[29]

The most important consideration is the efficient application of resources. There is a minimal amount of waste. Also, the nation is not physically limited in what it can produce. It must make

choices in a condition of scarcity, but what ever it chooses, it can produce.

The final stage is the stage of high mass-consumption. This follows from two realities of maturity,

1. real income per head rises to a point where a large number of persons gain a command over consumption,

2. the structure of the working force changes in ways which increase not only the proportion of the urban to rural population, but also the proportions of population working in offices of skilled factory jobs.[30]

Both of these phenomena lead to high mass-consumption.

A rise in the real income per head allows every person to have greater purchasing power. They will then consume more of the products produced by the industrial sector. The changing structure of the working force suggests that there will be more time to enjoy the fruits of success. The government can now spend more money on social security and welfare provisions.[31] This stage is the desire of all capitalist nations.

Other important economists postulated conditions that growth would create. In the early 1970s, Simon Kuznets theorized that economic growth would be accompanied by three factors:

1. change in the production structure,
2. increase in the size of production units,
3. rapid urbanization.[32]

These were all problems that the Newly Industrializing Country (NIC) would have to confront. For his work, Kuznets won the Nobel Prize for Economics.

Sociological Considerations for Development

Rostow's analysis focused almost solely on economic considerations. Kuznets follows the same conceptual line. A large segment of the modernization theorists have focused on the sociological and political conditions and implications for development. These writers focus not on macroeconomic considerations, but instead on the internal political development of what they consider the necessary prerequisites for economic development.

There are a number of significant features required for capitalist development. Perhaps the most important is the rise of the entrepreneurial class as the most significant sector of the economy. Joseph Shumpeter has defined entrepreneurship as the "capacity of leadership in innovation, for breaking through the routine and the traditional."[33] Seymour Martin Lipset has used this aspect of society as the most telling sign of oncoming economic modernization. Potential capitalists must be persuaded to invest their resources in capital ventures. In practical terms, they must invest their resources in industrialization, rather than in agriculture, A refusal to invest is the main cause of economic stagnation throughout the Third World. Only through a promotion of risk-taking will the nation develop its resources and modernize.[34]

There are a number of obstacles to the development of the entrepreneurial class in Third World nations. Lipset is particularly interested in the roles of the elites in the modernization process. In Latin America, the process of

colonization led to the development of a class of large landholders, or latifundios. These latifundios are hesitant to invest their excess capital in any venture other than that to develop their cash crops. They maintain a certain level of prestige in the continuation of the current economic arrangement. Therefore, they are hesitant to engage in the necessary steps to designate their excess capital for industrialization.[35]

Jacques Lambert, a French social scientist, has identified the latifundios as the most significant obstacle to social change in Latin America. He sees the problem of hoarding the land, as described earlier, as perhaps the most telling sign of stagnation throughout the region. Because the latifundios benefit from cheap labor tied to the land, they oppose social legislation that increase the political and economic power of the working classes. They are paramount in the government's unwillingness to allow unionization of rural workers. Therefore, they stand as a formidable obstacle to change.[36]

Other theorists focus on different types of elites as the thrust of their discourse on political and economic modernization. Robert E. Scott has focused his work on the former political elites and their orientation. He sees as essential the rise of professional bureaucrats to deal with public policy, thereby de-politicizing the process. In this process, the landed aristocracy must turn over their power to the entrepreneurial elite, who then turn over authority to bureaucrats.[37] This type of power transfer is essential if the

nation is to set aside its ideological differences and forge a working coalition based on the desire to industrialize and modernize.

Kalman Silvert has described the type of person needed for industrial modernization to occur. The "modern person" is a relativist in that he does not seek absolute truth in public affairs, and is, above all, a compromiser. He rejects absolute moral precepts as the legitimate arbiter of social affairs, choosing instead to rely on the rule of law and case precedent. In other words, the modern person is a thankless bureaucrat. He is non-ideological, and is interested in efficiency.[438] This emphasis on a anti-absolutism in political decision-making is a central feature of a number of modernization theorists.

Latin American modernization theorists have focused heavily on the historic development of the region. They point, in particular, to the role that the "Mediterranean Ethos" has played on the history of that region. For Lipset, the driving factor in the region's underdevelopment is the existence of Roman Catholicism. The Catholic Church is particularly concerned with authoritarian rule and the role of the hierarchy in society. Unlike Weber's Protestant capitalist, the Catholic has continually rejected the concept of individual achievement as

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* I charge that these assumptions, described by the theorists as non-political, are themselves quite ideological. Peter Berger gladly accepts the ideological label, but most of the other theorists consider themselves scientists of society, and basically non-ideological. This is a criticism I will develop more fully in the next chapter, but I believe that it deserves mention here.

having any role in salvation. The Catholic is charged with helping the community, placing its interests over individual concerns. Therefore, entrepreneurship is castigated if it hinders the development of the organic whole.[39]

To prove his point, Lipset contrasts the economic development of a nation with dual histories, Canada. Quebec, of a French Catholic background, has remained behind Protestant British Canada economically. The spirit of capitalism has yet to engulf the Quebecers in the same vein as it has their British counterparts. This is seen as evidence that Catholicism is not wholly conducive to capitalism, which in turn is cited as a leading indicator of Latin American underdevelopment.[40] Whether this is true or not has yet to be proven.[5]

Finally, both Lipset and Silvert are influenced by the work of Talcott Parsons and the concept of pattern-variables. The most important of these is the distinction between universalism and particularism. This is the distinction between whether a society's basic rules are administered universally or on a particularistic basis. Universalism suggests that society is governed by laws rather than by custom, and that there are no rights granted to some groups or individuals but not to the whole

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* I find this example unconvincing given the recent economic success of Quebec. But I leave final judgement of this example, as well as the anti-Catholic argument, to you, the reader. The question that must be asked is whether Quebec has developed in spite of its Catholic history, or if that history is essentially irrelevant? How this is answered will illuminate the proper policies for Latin American nations. But this particular exercise is beyond the scope of this work.

of society. Particularism is the opposite of universalism. Parsons reasoned that universalism was a necessary prerequisite to political and social modernization.[41]

John Johnson has identified the middle sectors of society as the most important potential entrepreneurs. Historically, this class has been very small and rather weak in political affairs. But, through industrialization, there has been as emphasis on the development of a capitalist class, as well as a service sector. It is with this class that the future of industrialization lies.[42]

The Latin American middle class has six distinctive features. They are increasingly urban. The rise of urban centers have aided in breaking the power of the latifundios and have emphasized the need for industrialization. They are universalistic in their desire for public education. They are nationalistic, which is best exemplified in their support for the program for autonomous-capitalist development as expressed through the United Nations Economic Commission on Latin America (ECLA) and its founder, Raul Prebisch. They are anti-laissez-faire, and desire state intervention. Finally, they express themselves through the political party, and support civil institutions.[43] This means they are unwilling to adopt any program designed for them by the more liberal Western economists.

The rise of the middle sectors, the co-optation of the elites within the nation, and the designation of capital for economic development were the primary focus of the early

modernization theorists. More recently , there has been an influx of literature focusing on the need for Third World nations to adopt specifically laissez-faire policies for political development. It is neither the social nor the economic capacity for development that is the focus of this work. It is, instead, the presence of state policies promoting capitalism that is the primary indicator of economic success. This work is embodied in the theorist Peter Berger.

50 Arguments for Capitalism--Peter Berger

The newest of the modernization theories have focused almost exclusively on the role of the government in the development of the Third World economy. The critique has been one mostly on the interventionist tendencies of the developing nation. The most influential of these critics is Peter Berger, who calls for a more laissez-faire governmental policy throughout the Third World.

Berger believes that developmental governments operate from a specific ideological position contradictory to the ideology used by the developed world to reach their relative states of economic growth. First and foremost is the belief that development is more than simple economic growth. It is, instead, a call for a more egalitarian distribution of the wealth of the nation. Whereas Berger does not deny the need for development to involve all sectors of the economy and to improve the lives of the entire population, this is not the job of the

government. State intervention means economic stagnation. Only if the economy is allowed to grow will it become vibrant, and then improve the lives of all. Welfare in the Third World brings prosperity to none and misery to all but the elite, select few.[44]

The second tenet of the Third World ideology is that Third World poverty is caused by colonialism and imperialism. The focus of Third World theorists is on their colonial past. This is a mistake. Instead of developing their own resources, they sit on their hands and complain that the West is doing nothing to help them out of their state of misery. They need to pull themselves up by their bootstraps, so to speak. Therefore, instead of developing themselves, they sit and wait for compensation for the past. This inherently leads to stagnation.[45]

The final tenet of the Third World ideology is that economic rights are as important as political rights. Berger finds this aspect of human rights discourse dangerous. He believes, as Milton Freedman before him, that political rights and economic freedom leads to a greater degree of individual autonomy, which in turn leads to economic growth. Through economic growth, life's basic necessities will be provided. Therefore, only through an open economy and a political climate conducive to political rights will the nation develop both economically and democratically.[46]

State intervention is more than just an impediment to

economic growth for Berger. It is, itself, immoral. It wastes human resources and creates conditions where people are denied life's necessities. It creates a climate for corruption. It causes poverty, hunger, and underdevelopment. And, because it is socialist in nature, it tramples on the very democratic principles which constitute moral government. Therefore, Third World nations must cease and desist their interventionist policies.[47]

Berger states that he uses three criteria to define success in economic development. They are:

1. Successful development presupposes sustained and self-generating economic growth.
2. Successful development means the large-scale and sustained movement of people from a condition of degrading poverty to a minimally decent standard of living.
3. Development cannot be called successful if the achievements of economic growth and equitable distribution come at the price of massive violations of human rights.[48]

The first point comes directly out of Rostow's "Stages of Economic Growth." It describes an economy needing no foreign or domestic aid for development. In other words, an economy in take-off. The second is the closest Berger comes to populism. It is his admittance that the plight of the general population is important (although his prescription to battle the problem, as detailed above, is antithetical to the developing nation's current policies). Finally, he will have nothing to do with the bureaucratic-authoritarianism of the South American development states, not with Maoist China. There must be respect for human

rights for Berger to consider the development legitimate.

But, he recognizes that the nation may have to be authoritarian to implement development policies. The nations of the Pacific Rim (including Japan) are prime examples. There need not be democracy to develop. But that is not a license for human rights abuse. And, a nation must be prepared to democratize as one of the final stages of economic and political development.[6]

Modernization theory has been challenged by a number of theorists, both in the developed and the developing world. The next chapter is devoted to their influence on the literature concerning economic development.

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* This is the stage of the current government of South Korea, which I will discuss later.

CHAPTER 2:

FROM TRADITIONAL TO DEPENDENT CAPITALIST STATE: DEPENDENCIA

In the 1960s, immediately following the rise of the modernization theories discussed in the previous chapter, a great deal of literature challenged the premises of the theories. Named "Dependencia" because of the influence of Latin American writers, this new body of thought suggested that Third World nations break their economic ties with the West. Rather than demand more economic aid, they wanted to sever the cord. Although Karl Marx's theories of capitalist exploitation were a source of inspiration for dependencia, the writings of the Economic Commission on Latin America (ECLA) under the directorship of Raul Prebisch were the foundation of this new theory's critique of the existing international economic order.

Raul Prebisch: Structuralism

Raul Prebisch, a Latin American theorist, conceptually divided the global political economy into two groups, the core and the periphery. He used this distinction to prove the non-autonomy of the weaker states in the economic system. The nations of the core are the highly developed, industrialized nations, while the nations on the periphery are the suppliers of raw materials, cheap labor, and markets for the core. Because the core produces the necessary finished products for the periphery, there is a dependency relationship.[49]

This dependency relationship is further strengthened by the

international division of labor. The basic premises of the problems of the division of labor are rooted in the concept of pricing within capitalism. Prices are set in the following manner:

> raw materials + labor + transportation + margin of profits = price of finished goods

Since the periphery is charged with the production of raw materials, while the core produces finished products, this division creates structural balance of trade problems.[50]

These balance of trade problems require that the periphery produce more and more of their raw materials to purchase finished goods. The rise in production drops the price of the raw materials, so the problem exists regardless of the policies adopted by the government. The balance of trade problems persist because the price of the raw materials is necessarily lower than that of the finished good. Therefore, there are structural problems in the economic order.[51]

Prebisch also argued that free trade is an illusion. The developed world is protectionist, while it demands that the developing world not protect its infant industry. Therefore, the chronic balance of trade problems will necessarily persist, because the periphery is not afforded the same opportunity to develop that the developed world was (under a mercantilist order).[52]

Free trade also requires that foreign investment be allowed in each of these Third World nations. This carries with it two distinct problems. The first is the capital-intensive technology

that follows from foreign investment. There is no spill-over effect for the technology transfers and the development projects of these multinational corporations. Instead, the investment is used for the enhancement of operations. Therefore, the infrastructure ties the interior to the ports, while not affecting the population centers.[53]

The second problem inherent in foreign investment is that of profit repatriation. These multinational corporations are now investing their profits in projects to help the company. Nor are they investing in indigenous companies. They instead send their profits back to their home countries, where they are invested. Therefore, there is a multiplier effect, but these effects are seen not in the Third World nation, but instead in the developed world.[54]

Prebisch, unlike most dependencia theorists, is fully capitalist. But unlike the capitalists from the West, he makes a distinction between capitalism and free trade as embodied in the principles of the General Agreement on Trade and Tariffs (GATT). He calls for neo-mercantilist policies in the Third World, while the core needs to make concessions to allow these nations to develop. He used Hamiltonian arguments for protection of infant industry, as well as the Japanese experience, to justify his model of development. He, therefore, is best seen as a reformist, rather than a radical.

Prebisch's analysis of the problems of the free-trading order were highly influential for other dependencia theorists.

They have often rejected his call for capitalist development, but they use his description of the international trading order as evidence in the need for a change. Consequently, he is one of the most important of the dependencia theorists.

Celso Furtado: The International Division of Labor

Celso Furtado, a Brazilian historian and economist, used a number of Prebisch's observations and expanded on them. He points to the problem of the international division of labor, and how that perpetuates the conditions of underdevelopment and dependency in the Third World.

Furtado sees the Third World as incorporated into the capitalist order as producers of raw materials. This means that the developing nation is used by the West to provide these materials, as well as cheap labor for the production and transferral of these materials. This exacerbates the balance of trade problems discussed by Prebisch. The consequence is that the laborer in the Third World is necessarily exploited by the multi-national corporation, for that is the role of the Third World laborer in the capitalist order.[55]

Furtado sees Import Substitution Industrialization as the necessary policy to solve the crisis of the international division of labor. Since, as Prebisch so eloquently described, the laws of capitalism require that producers of raw materials necessarily receive the short end of the trade stick, the Third World must begin producing the finished products to solve their

balance-of-trade problems. Autonomous capitalist development was the answer. The diversification of the Latin American economies following the 1929 collapse of the international trading order provided empirical evidence supporting the need for ISI.[56]

Andre Gunder Frank: The Development of Underdevelopment

Another challenge to the modernization order was the writings of Andre Gunder Frank. He accepted Prebisch's critique of the balance of trade problems inherent in the system, but he calls for a more fundamental change in the system. Since capitalism is at the root of the problem, the proper response for Third World nations is to sever their ties with capitalism and build socialism.

Frank looks specifically at the conditions under which colonialism occurred. The European nations incorporated the Third World into the capitalist systems by a process of exploitation. Mercantilist theory argued that the colony was to serve the mother country. Arguments for colonization were racist and elitist. Since not even the rhetoric was egalitarian in nature, the motives behind colonization were obviously less than pure. The colonizers were driven by the desire for a vast share of the world's raw materials, cheap labor, and markets for their excess goods. In other words, the Third World nations were incorporated into the capitalist system to be exploited.[57]

This realization argues that Rostow misinterpreted the conditions of the Third World. Although they may have been

undeveloped and traditional at one point in their history, they are not now. There is a qualitative difference between undevelopment and underdevelopment. The former suggests a rather isolated society, void of the advances of technology. The latter is a condition of exploitation.[58]

Frank also rejects the dual society that Rostow and others characterize. The Third World nation is not one where technology and economic development have touched one area of the country without spill-over. It is developed to supply the developed nations with the materials it needs to survive. This is evidenced by manner in which the Third World has been developed. an example is the highway system of a typical Third World nation. There are no roads between major population centers, but elaborate transportation systems between export-oriented port cities. The infrastructure is not designed to transport people throughout the nation. It serves the multinational corporation which extracts needed material for its operations. The multinational represents the developed world's exploitation of the Third World.[59]

These cities which house the multinational corporations and their export operations are historically situated in the dependant nation. They serve an important purpose. Quoting the Secretary General on the Latin American Center for Research in the Social Sciences, he writes:

> The privileged position of the city has its origin in the colonial period. It was founded by the Conqueror to serve the same ends that it still serves today; to incorporate the indigenous population into the economy

> brought and developed by that Conqueror and his descendants. The regional city was an instrument of conquest and is still today an instrument of domination.[60]

In this way, Frank compares the process by which the nations were originally incorporated into the capitalist system with the continued exploitation at the hands of the rulers of these cities, the multinationals.

Responding to charges that these nations would be underdeveloped without the West, but are benefitting from the arrangements they have procured with the developed world, Frank once again turns his eyes to history. He points out that the periods of the highest and most egalitarian rates of growth in Latin America was during the Two World Wars and the Great Depression. He hypothesizes that this development was due to the necessary breaking of ties with the developed world. The nations of Latin America were forced to produce that which they had previously imported (Import Substitution Industrialization), and this fueled independent economic development. Several nations even became exporters of manufactured goods, thus improving the balance of trade problems discussed by Prebisch.[61]

He then looks internationally at a classic example of independent economic growth: the example of Meiji Japan. During the Meiji Restoration, the Japanese tried to develop themselves with as little direct investment from the West as possible. They used the same processes as the West, but it was done with both Japanese labor and capital. There were no grants given to independent investors to develop Japan. Not coincidentally, this

autonomous development approach was highly successful, and proves Frank's point well.[62]

What Frank fails to discuss is that Japan followed Prebisch's prescription for autonomous capitalist development, not socialism. It adopted the same strategies for development, many of the same policies, and even a similar value-system of the West. The drive during Meiji, to be sure, was to develop autonomously. It was, however, through an almost direct emulation of the West that Japan was successful. Frank wants to argue that the ideology of development is capitalist in nature. His example proves this ideology to be favorable, albeit in a different manner than what the modernization theorists postulate.

Cardoso and Faletto: Populism, Societal Change, and Development

Fernando Henrique Cardoso and Enzo Faletto, two contemporaries of Frank, postulated that the internal historical steps in the Third World contributed heavily to the process of dependency. This period during and following the Second World War was a wedding of the elitist political class and the working class. This created a dependency relationship by the workers on government. The proletariat depended on the government to protect it, while the government was actively colluding with the capitalist world to enact greater economic development. Therefore, the populist regimes were essential in the process of co-opting the working class into the dependency relationship.[63]

Cardoso and Faletto postulated three distinct ways in which

the industrial bourgeoisie, the driving forces behind both industrialization and dependency, appears in the different nations of the Third World:

> 1. "Liberal" industrialization directed by private entrepreneurial sectors; this required the existence of a vigorous and hegemonic agro-exporting sector that was in some way also linked to the domestic market.
>
> 2. "National-Populist" industrialization oriented politically by the drive of social forces like the bourgeoisie, the middle sectors, and the popular (trade union) sectors, and linked to the power apparatus. Together with the agro-exporting sector (even if in conflict with it), these forces shared to some extent the direction of the process of development.
>
> 3. Industrialization oriented by a "developmental state," a process in which the weakness of a domestic capitalist export-import sector was offset by a state program that through a tax system channeled investment and established the bases for an industrial economy.[64]

The first type of bourgeois is the type required by Rostow to realize the pre-conditions for take-off. This industrialist is capitalist in that he wishes to increase the profits of his agro-exporting economy through the expansion of facilities for use in exporting his crops. This is why a hegemonic agro-exporting economy is necessary. This type of industrialization is likely to be capital-intensive, which seldom benefits the population at large. It also perpetuates dependency.

The second type of bourgeois was prevalent in Latin America during the period of ISI. They wish to break the hegemony of the monocrop economy through the production of manufactured goods, as prescribed by Prebisch and Furtado. They will collude with the

agricultural giants of the nation, as both see development as crucial. In this way, they are partners. They disagree, however, in the emphasis of foreign capital. The Populist/nationalist is more concerned with indigenous economic development than is the liberal.

The third bourgeois demands the most active role for the state in the development of the nation. This is the typical Japanese person.* Tax incentives for development are essential in the third prescription for development. Dependency is enhanced, however, by the "development at all cost" ideology, as well as foreign companies who take advantage of the tax breaks. These nations often find themselves dominated by foreign capital investment, which exacerbates the problem of profit repatriation as discussed by Prebisch.

Which of these paths the nation takes seems of little importance as to the quantitative measures of dependency, although they may affect the qualitative measures. The important point is that all three lead to dependency, unless steps are taken to protect the economy. Cardoso and Faletto, like many of the Dependencia theorists, disagree with Frank and his call for socialism. They believe, like Prebisch, that autonomous capitalism is the best policy for Third World economic development.

A completely different critique is that of Cheryl Payer, who

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* What makes the Third World different is that most of these nations are not as insistent or efficient in keeping out foreign investment or products from their markets.

sees the developed nations working together to set a "debt trap," in which the Third World often falls.

Cheryl Payer: The Debt Trap

Payer focuses her critique of the modernization theory on the question of external debt. These Third World nations are extended loan money for the purposes of development and the stabilization of their currencies. The former is done through the International Bank for Reconstruction and Development (IBRD, or World bank) and the latter through the International Monetary Fund (IMF). The loans become burdensome on these nation's economies, and a source of control by the capitalist states.[65]

These institutions are argued by the West to be non-ideological, technocratic institutions, but Payer sees them otherwise. They are both headquartered in Washington D.C., and will always have a Western policymaking body. The policies of the United States et al are almost always consistent with the policies of these institutions. A prime example is the IMF's refusal to extend needed financial aid to Allende's Chile in the early 1970s. This money was refused because the Nixon Administration opposed Allende's designs for nationalizing Chile's strategic industries. The lack of funds were instrumental in the overthrow of the Allende government in 1973. This is prima facie evidence that the Western nations use these institutions as policy instruments.[66]

The general trend of these institutions is to extend loan

money for huge projects. When these projects are completed, the government is required to service this debt, at high interest rates. To service the debt, the government must take out further loans. The principle of the initial loans accumulate. Servicing becomes unbearable, and the national economy begins to experience "chronic structural problems." When loans become excessively burdensome, the government must adopt the IMF's stabilization model, or what Payer calls an "austerity program."

This is the West moving in for the kill. The austerity program is designed to exploit the Third World country at its moment of weakness. The currency is devalued and foreign investment is encouraged. This new competition destroys the infant industries designed to substitute imports from the West. In addition, all trade barriers are lowered, and state subsidies are cut off. State-run corporations are sold off, often to foreign speculators. At the very moment when the economy is at its weakest, the West begins buying huge portions. To use Payer's own term, the country has fallen in the debt trap.[67]

The dependencia theory is a fundamental challenge to the modernization theorists' tenet that underdevelopment is caused internally. External policies of economic doniantion through imperialism is the cause of underdevelopment. Obviously, theoretical challenges must be analyzed empiracally if they are to be considered valid. Therefore, what follows is a study of two countries, both of whom have experienced high growth rates. I will try to put these two nations in theoretical perspective.

Chapter 3:

From Traditional to Modern Economy: South Korea

For many Americans, Korea elicits memories of a war long-since forgotten. Older Americans remember sending loved ones to a faraway country about which the population knew nothing. Younger Americans are drawn to the television series "MASH" and remember a nation described as agriculturally-based and economically undeveloped. In the 1950s, Korea seemed an unlikely candidate for rapid industrialization. It stands, however, as one of the success stories of the modernization theorists: a testament to foreign aid contributing significantly to economic development. What follows is an attempt to understand the processes by which Korea developed, the nature of these successes, and perhaps a glimpse into what the future holds for this, the largest of the "Four Tigers."

A Nation Called Korea

Korea sits on a peninsula between three great powers in East Asia: Japan, China, and the Soviet Union. Only one-fourth of its land is cultivable, with most of the land being mountainous. It is approximately the size of Portugal, and just a quater of the size of either California or Japan.[68] The total area of the peninsula is 220,000 square kilometers.[69] Sitting between these three powers, Korea has been subject to countless attempts to try and control it, both internally and externally. It has been a colony of China and, most recently, Japan. Because of its

Table 1
Specific Data on Korea

	Population	Area	GNP per capita	avg. ann. growth	life expectancy
1977	36.0	99	670	7.3	n/a
1979	36.0		820	7.4	63
1981	37.8		1480	7.1	63
1985	40.0		2010	6.7	67
1987	41.1		2150	6.6	69
1989	42.1		2690	6.4	69

source: World Development Report[70]

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lack of resources, it has historically been dependent on its neighbors. This dependence has subjugated Korea to the whims of its more powerful neighbors. Like Japan, Korea is not self-sustaining. Its lack of resources and its relatively small size has lent itself to foreign domination. Therefore, an analysis of Korea's history is essential to understanding its evolution into the modern economy that now sits on the peninsula.

Historical Developments

Isolation and Chinese Dominance

The history of Korea is a history of dependence on one power or another. First China and then Japan dominated the Korean peninsula. Korea was also developed as regionally dependant; that is to say, the South was dependant on the North, and vice versa. The South was primarily agriculturally-based, while the North had all of the industry. Therefore, with the bisection of Korea in 1945, each region was necessarily dependant on its sponsor (the Soviet Union in the North and the United States in the South) for much of its necessities.[71]

Korean history can be broken down into the following stages:

Table 2
The Historic Development of Korea

I. The Yi (Chosun) Dynasty (14th Century-1876)
1. Centralized state
2. Chinese colony

II. The Opening of Korea (1876-1910)
1. First Encroachments from the West
2. Treaty system
3. First Sino-Japanese War
4. Russo-Japanese War

III. Japanese Colonization (1910-1945)
1. Period of Agricultural Development
2. Period of Industrial Growth
3. World War II

IV. Post-War Civilian Rule (1945-1960)
1. American Military Government
2. The New Republic
3. The Korean War
4. Post-war autocratic rule

V. Military Government (1961-1980s)
1. Repressive military regime
2. Period of liberalization

source: compiled by the author[72]

In the latter part of the 14th Century, the general Yi Taejo seized control of the peninsula, and founded the Yi Dynasty at Seoul. Yi was supported by the Chinese, which made Korea a vassal state (under the Confucian principle of the hierarchy of nations). Since that time, Korea, like most of East Asia, was governed under a centralized system based on Confucian principles. Confucius dictated that the world was based on superior/inferior relationships. One of these associations was that between the ruler and his subjects. In these relationships, the superior demanded absolute obedience, but was expected to

grant absolute benevolence. Therefore, the ruler had complete control over his kingdom, which required centralized government and a large, effective bureaucracy.[73]

In the mid-19th Century, the kingdom (coined by Paul Kuznets as the "Hermit Kingdom")[74] showed signs of decay. Korea had been closed off from outside influences, much like the Tokegawa Shogunate in Japan at the same time. After Perry's successful opening of Japan in 1854, the West turned its eyes to the Korean peninsula. Korea initially objected, and responded accordingly. In 1866, an American ship the General Sherman, was burned and its crew killed near Pyongyang. In 1871, the United States was once again defeated by the Koreans in a naval battle at the mouth of the Han river. Finally, in 1875, Japan forcibly opened Korea and signs a commerce treaty with the peninsula in February, 1876. Though still a vassal nation to China, Korea was officially recognized as independent.[75]

Colony and Japanese Domination

Chinese dominance over the peninsula continued until 1894, when a rebellion in Seoul erupted. Called "Tonghak" (Eastern Learning), this rebellion demanded that closer ties be initiated with Japan.* Both Japan and China send troops to "help the government on Seoul," and the first Sino-Japanese War was the result. The Japanese routed the Chinese, and by 1895 had

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* This was done for a number of reasons, most importantly because of Japan's success and China's failure to deal with the West on a somewhat equal footing.

defeated her larger neighbor. In the Treaty of Shimonoseki, China recognizes Korea's independence and Japan's sphere of influence over the peninsula.[76] This would begin 50 years of Japanese dominance over Korea.

Russia's response to the Treaty of Shimonoseki was to encroach on Japanese hegemony in Korea. Therefore, when Japan and Russia go to war in 1904, Korea was a major issue. After the Japanese victory in the Russo-Japanese War and the subsequent Treaty of Portsmouth, the Japanese established complete hegemony over the Korean Peninsula. In 1905, Korea became an official colony of Japan. After 5 years of preparation, Japan forced Korea completely under its control. On August 22, 1910, Japan annexed Korea.[77]

The Colonial Period was very difficult on the Korean people. The Japanese used Korea as a resource for rice cultivation and other raw materials, but allowed little or no industrialization to take place. The Japanese first seized the land from wealthy Koreans and redistributed based on loyalty to the Japanese. This was done under the auspices of the Oriental Development Company. This period of agricultural domination and development was also marked by severe internal security measures adopted by the Japanese colonial government. The final characteristic of the colonial period was the Chosen Company Regulations (Corporation Law), which limited non-agricultural investment in Korea.[78]

In 1931, the world began embargoing necessary materials for Japanese industrialization. The effects of the embargo became

Table 3.1
Volume, Distribution, and Relative Importance of Foreign Trade 1910-12 to 1939-41

period	Volume (million yen)	percent distribution exports to: Japan	China	Others
1910-12a	380.1	73.7	16.8	9.5
1914-16a	567.4	79.9	13.0	7.1
1919-21a	961.6	89.9	8.8	1.3
1924-26a	1593.3	93.1	6.6	0.3
1929-31a	2073.5	91.4	8.2	0.4
1934-36a	3813.6	87.7	11.6	0.7
1939-41a	4174.4	77.4	21.2	0.4

source: Suh Sang-Chul[79]

a= yearly average

Table 3.2
Volume, Distribution, and Relative Importance of Foreign Trade 1910-12 to 1939-41

	percent distribution Imports from: Japan	China	Others	Trade Ratios
1910-12a	62.4	10.1	27.5	13.8
1914-16a	67.5	12.9	19.6	17.6
1919-21a	64.4	23.7	11.9	28.7
1924-26a	68.0	24.3	7.7	39.9
1929-31a	76.5	15.9	7.6	51.7
1934-36a	84.8	10.8	4.4	57.2
1939-41a	88.3	4.8	6.9	53.5

source: Suh Sang-Chul[80]

a= yearly average

note: the trade ratio = $\frac{\text{exports + imports}}{\text{commodity product + imports}}$

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more pronounced following the Manchurian incident of 1931. The embargo, coupled with the collapse of the international trading order of 1929, compelled the Japanese to repeal the Corporation Law. This policy fueled industrial growth in Korea, which was

sent to Japan to boost the Japanese war machine. Government intervention, most evident in its preparations for war, marked this middle period of colonization.[81] Korea was beginning to break its dependence on agriculture and significantly diversify the economy.

The period of 1942-45 is one of economic disruption, about which the West knows little. Japan obviously tried to squeeze Korea for whatever it could to fuel the war effort, and this period was understandably hard on the Koreans. The specific policies of the Japanese vis-a-vis the Koreans, however, is unknown. The Japanese were quite effective at destroying any incrinimating evidence compiled during the war.[82]

Korea's volume of foreign trade increased substantially during the period of industrialization. As Table 3 shows, the volume of international trade increased dramatically during colonization, while the percentage of trade with the Japanese also increased dramatically. The increases in trade with China following 1931 shows the Japanese policy of integrating its newly acquired Chinese territory into the Japanese empire. Finally, the level of exports from Korea to Japan was historically higher than the imports from Japan to Korea.[83] This is a sign that Japan practiced an orthodox colonial policy toward Korea, milking its economy while reinvesting little. Korea's dependence on the world became even more pronounced.

Democracy and Post-War Independence

The end of the war through its defeat of Japan brought independence to Korea. The nation found itself divided, and a victim of the oncoming Cold War. The United States occupied the Southern Half of Korea, while the Soviet Union occupied the northern half. From 1945-48, the United States ruled Korea, and supplied money for economic necessities through the Government and Relief in Occupied Areas (GARIOA) program. During this time, over $400 million flowed into (now) South Korea, with over 90% of the aid coming in the form of food, fertilizer, clothing, fuel, and other commodities.[84] The United States was hoping to avoid the disaster of a famine, but showed little interest in funding economic development.

The New Republic was formed following the American withdrawal in 1948. As L.L. Wade and B.S. Kim have described, "During the New Republic, power was allocated primarily to the Assembly, while the political culture continued to rest upon the persistent authoritarianism of the past."[85] In other words, although there was formal democracy, an autocratic tendency dominated Korean political life. A civilian government under Syngman Rhee ruled Korea. Rhee emphasized internal security, and ruled as a absolute autocrat. Provisions for repressions were outlined in the National Security Law.[86] As a result, guerrilla activity was wide-spread on the eve of the Korean War. In these three years prior to the Korean War, the U.S. gave Korea $350 million in aid through GARIOA. This was designed to cover the cost of importing fertilizer, food, and industrial raw

materials for the industrialization promised by Rhee during his campaign for the Presidency. Again, the United States had a notion of nascent economic development, but had yet to devise a comprehensive development plan for Korea. Much of this aid was poured into the military following the security threat from the North.[87]

The Korean War was devastating to the economy of Korea. Property damage in the South equalled the entire GNP for the year 1953. Aid to Korea was sent through a number of agencies, including the United Nations Korean Reconstruction Agency (UNKRA) and the American Civil Relief in Korea (CRIK).[88]

The period of 1953-61 can be best characterized by the personal dictatorship of Rhee. The bureaucracy was never developed by Rhee, because of his autocratic policies. Much of the aid money sent to Korea was invested in pet projects favored by Rhee, and corruption ran rampant. Internal security measures were strengthened, as the President appeared far more interested in maintaining power than in building a viable economy. Foreign investment fueled whatever growth Korea accomplished during this period, and it was far from self-sustaining.[89]

In 1960, Rhee faced challenges to the legitimacy of his government. On April 6, a student-led uprising rocked Korea. The government responded harshly to the uprising, killing 130 and wounding over 1,000. Rhee's popularity plunged, and on April 26, he was exiled in Hawaii. His successor instituted the Second Republic, which was overthrown by military coup less than a year

later. By May, 1961, a military government was installed, with Park Chung-Hee as the President.[90]

Military Government and Rapid Economic Growth

The military government adopted an ideology of economic growth at all costs. The government took an active role in economic planning, as evidenced by the five Five-Year plans instituted by the Korean government since the early 1960s. The land was conceptually (and later administratively, in 1972 under the National Land Development Act) into regions. The most important of these regions were Seoul and Pusan. Seoul's proximity to the North caused security problems, as it was continually under threat of shelling from North Korea. It nevertheless continues to dominate the Korean economy. In later years, the government encouraged development of the far Southeastern corner of Pusan, and has been relatively successful. The bulk of the population remains, however, centered in Seoul. In 1962, the government instituted the first Five-Year Plan. To fuel economic growth, Korea normalized relations with Japan in 1965. This provided the nation with cheaper materials, more abundant capital, and more available markets. The first Five-Year plan brought export-oriented industrial growth, and trade with the United States flourished. But, the growth was also accompanied by high social costs, which will be discussed later in the chapter.[91]

As stated before, the Korean economy operated with a vast

degree of government control. In 1972, the government instituted the National Land Development Plan, which divided the whole country into the four "Large development or river basin regions." Each of these regions was further subdivided into eight major regions. The most important of these regions, as stated before, was Seoul and Pusan-Kyongman. Together, the two regions contain over 50% of the Korean population. The drive for the Korean government was to relocate the locus of its economy and its population away from the security-threatened region of Seoul and into the safe Southeastern corner.

In 1970, Korea was officially designated as a Newly Industrializing Country (NIC). In the 1980s, the government shifted from an official policy of growth at any cost to growth with stability. This is what Rostow calls the drive to maturity. Korea is now focusing on providing social welfare for its population, and paying off the huge debt it accumulated during the high-growth period of the 60s and 70s. It stands on the brink of success.

Economic Growth and the Miracle on the Han

The type of growth desired by the military government was export-oriented industrial growth. They wanted to wean the economy away from rice production and emulate the success of the Japanese. This would resolve the balance of trade and payments problems that persist in the Third World, as well as spin-off to improve the lives of the general population.

As tables 4 and 5 show, the Korean economy no longer

Table 4
Average Annual Growth Rates

	GDP	Agricul.	Industry	Manufact.	Services
1965	8.5	4.5	17.2	17.2	8.4
1977	10.4	5.0	17.0	19.3	8.5
1979	10.3	4.8	17.1	n/a	8.6
1981	10.3	4.8	16.5	17.8	8.8
1985	7.3	1.5	11.2	11.8	6.9
1987	7.9	6.3	9.6	9.0	6.7
1989	8.6	4.4	10.8	10.6	7.7

source: World Development Report[92]

Table 5
Distribution of GDP

	Agricult.	Industry	Manufacturing	Services
1960	40	19	12	41
1965	38	25	18	36
1977	27	35	25	38
1979	27	34	n/a	39
1981	20	39	27	41
1985	14	39	27	47
1987	14	41	28	45
1989	11	43	30	46

source: World Development Report[93]

note: % of GDP accounted to manufacturing is a part of % of the GDP accounted to industry.

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stressed agriculture by the late 1970s. Whereas agriculture accounted for 40% of the Korean GDP in 1960, it accounted for a mere 11% in 1989. This suggests that the government was successful in weaning the economy off rice production and mining and onto a more diversified economy. The essentially constant GDP growth rates, and the lack of significant influence any one sector had on general GDP growth rate for the last 14 years also suggests a more diversified economy. So, in its stated intentions, the Korean government was successful. It appears

that Korea is now situated on the semi-periphery, and has already passed through Rostow's take-off stage.

Rostow and the Korean Economy

Rostow has described the period of 1961-68 as the period of the take-off for the Korean economy. Unlike the usual 40 years it took other economies to fully accomplish take-off, Korea's high growth rate period was very short. Rostow points to the following factors as instrumental in this short take-off period:

(a) the adoption of a sound-growth strategy,
(b) the development of growth-promoting institutions and public policies,
(c) high quality workers and entrepreneurs,
(d) a technological backlog available to Korea as a latecomer,
(e) proper use of public resources for infrastructure development and education,
(f) population control,
(g) the capacity of entrepreneurs and policymakers of the "intellectual trap" -- the assumption that an economy can be managed adequately using only such macroeconomic tools as the regulation of money supply, interest rates and so on.[94]

Many of these factors suggest a management-oriented role for the government. The adoption of a sound-growth strategy seems wrong-headed, for although the government did adopt a policy of managing growth, inflation persisted as a problem. This will be analyzed in the next section. The development of growth-promoting institutions and public policies and the proper use of public resources are both governmental management questions. the role of education has been called the "New Confucian Ethic," which will be discussed later. Population control and the "intellectual trap" are also government policies. So. in

contrast to Berger's call for more laissez-faire economic policies, it seems the success of Korea has been in more government intervention.

Government Intervention and the Korean Economy

The government intervention, however, has been accomplished through more emphasis on local ventures. Rather than create large, state-centric corporation, the Korean government has assumed the role of a supporting actor to the economy, but an important one nevertheless. Unlike the policies of the United States (or those prescribed by Peter Berger), the Korean government has not completely withdrawn from economic affairs. It does not practice laissez-faire economic policies. Instead, it takes a very active role by providing capital for the purposes of investment, while allowing private entrepreneurs to take advantage of the governmental policies. In this way, it more closely follows the Japanese model of capitalism, rather than the American model. Therefore, Korea stands as proof that it is not government intervention per se that inhibits economic growth. There are other factors that enter into the equation.

As Table 7 shows, the Korean government's intervention into the economy grew throughout the period of high growth rates. The number of public enterprises stabilized in 1970, but the value added to the economy has risen exponentially in the last 25 years. From a modest investment of 21.6 billion won in 1963, the public enterprises invested nearly 4 trillion won in 1986.

Table 6
The Status of Korean Public Enterprises, 1988

TYPE	NUMBER OF ENTERPRISES	EMPLOYMENT ('000)	ASSETS (trillion won)	SALES (trillion won)
a-government enterprises	4	73.4	9.51	2.68
b-government-invested enterprises	26	160.4	55.97	10.10
c-subsidiary companies of GIEs	67	75.2	8.02	5.82
d-other government-backed enterprises	6	31.1	27.93	3.95
e-local public enterprises	119	25.1	5.35	0.47
f-Total	222	365.3	106.78	23.02

source: Dae-hee Song[95]

GIE=government invested enterprise

Table 7
The Public Enterprise Sector

	1963	1970	1975	1980	1986
Number of enterprises	52	119	116	111	107
Sectoral value-added (billion won)	31.8	262.1	848.5	6680.0	6859.0
% of GDP	7.0	9.2	8.3	9.1	9.1
Sectoral employment in thousands				280	341.9
% of total employment				1.9	2.0
Sectoral Investment billion won	21.6	216.3	918.6	3253.7	3897.3
% total investment	31.7	18.9	33.2	27.6	15.6

source: Leroy P. Jones and Il Sakong, 1980, Song Dae-hee, 1986, Kang Shin-il, 1988, and Kwack Soo-il, 1988[96]

Although the actual percentage of investment has decreased, the amount of investment has risen sharply in the last 10 years.

This suggests that the government should take an active role in developing the economy, but may be able to back off after a period of substantial growth.

Finally, it must be stated that the Korean government conceived of itself as a partner to the leading firms in the national economy. This is the same economic ideology that Japan follows. This should not be surprising, considering that Korea was initially developed by Japan and is similar culturally. Both nations are prone to social consensus, and both have experienced high growth in the very recent future. Not surprisingly, both are affected by what Song Byung-Nak calls the "New Confucian Ethic."

The New Confucian Ethic

The impact of Max Weber's The Rise of Protestantism and the Spirit of Capitalism has caused many Westerners to seek similar traits among East Asian people. Modernization theorists look to cultural explanations as to why the "Four Tigers" have been so successful at attaining economic grwoth and development. This searching has lead to the postulation of a "New Confucian Ethic."

This New Confucian Ethic is charcterized first and foremost by an emphasis on education. Dating back thousands of years, the followers of Confucius have sought the "best and the brightest" to manage the affairs of the nation. They have emphasized universal access to education, It is not uncommon for parents to sacrifice worldly pleasures to allow their children to continue

Table 8
Education

	% enrolled in education primary total	male	female	secondary total	male	female	tertiary
1960	94	99	89	27	n/a	n/a	5
1965	99	100	99	35	44	25	6
1977	100	100	100	63	n/a	n/a	10
1979	100	100	100	59	n/a	n/a	10
1981	100	100	100	74	n/a	n/a	11
1985	100	100	100	89	n/a	n/a	24
1987	100	100	100	91	94	88	26
1989	100	100	100	95	98	93	33

source: World Development Report[97]

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their education. In the United States, the motivation would be a parental personal fulfillment through the success of the children. In the Confucian nation, the personal fulfillment is through the success of the nation. This is why the Koreans, as well as the other nations of East Asia, are so driven to excellence in education.[98]

As table 6 shows, even as early as 1960, Koreans were attending school on a regular basis. The percentage of the population in secondary and tertiary education increased substantially in the last 15 years. This is a sign that Korea emphasizes education as the cornerstone of the economy.

The second tenet of the new Confucian Ethic is the desire for leadership from the government. Rather than desire limited government through a Bill of Rights and laissez-faire economic policies, Confucians desire leadership from the government. This dates back to the superior/inferior relationships Confucius identified, with one of the fundamentals being that between the

ruler and the ruled. The close relational aspect between government and the economy explains the significant role both the Korean and the Japanese Ministries of Trade and Industry play in the economy. Many theorists believe this gives East Asian nations an edge in economic affairs.[99]

The third tenet of Confucianism is the desire for consensus. Neither the Japanese nor the Koreans are particularly interested in conflict. This is what the Japanese call "kogi." Personal interests should be purged for the interests of the community. Again, this explains why the Korean people accept a repressive regime, but one that fosters economic growth.* The growth is for the good of the nation, so the individual should not object to a lack of political liberties.[100] This is why there are so few labor strikes in Korea and Japan, and so coincidentally so few periods of low growth.

Finally, the New Confucian Ethic fosters the kind of entrepreneurial spirit which fosters economic growth. All labor should be directed for the state, which takes an active role in the management of the economy.[101] The ethic rewards hard work through the personal satisfaction of experiencing national success. This rivals the Protestant work ethic in that both drive a person to labor, but is healthier because personal satisfaction is not connected with personal economic success. In

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* This hypothesis falls flat in the face of the recent student demonstrations in South Korea, but remains central to the concept of the New Confucian Ethic. Perhaps Korea is simply not as successful at fostering this aspect of the ethic as is Japan.

other words, Protestantism is individualistic, while Confucianism is other-seeking. Welfare is built into a system without government intervention.*

High Growth Rates, Inflation, and the Social Costs

High growth is generally accompanied by high inflation. The military government did little the arrest the high inflation. Its policy of growth at all costs forced the population to suffer the consequences of the inflation. Song Byung-Nak has identified four major consequences. First of all, the inflation redistributed wealth from creditors to debtors. This was because the interest rates could not keep pace with the inflation, so loans were cheap. This ran against the Koreans' sense of justice. They saw the creditors as being small entrepreneurs. The debtors were large conglomerates. Therefore, inflation had a reverse Robin Hood effect: it stole from the poor to give to the rich. The number of political scandals during the period of inflation was proof that the rich were getting richer and the poor were getting poorer.[102]

The second effect high interest rates had was that it caused negative real interest rates. What this means is that, because of the banking industry's inability to adjust interest rates to keep up with the inflation, the interest accumulated on savings

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* Of course, this is not always the case. One need only study the retirement practices of the Japanese to be alarmed at the need for national welfare, but, in theory, it should be present on a personal level.

was not equal to the value of the money in real terms. Quite simply, money was worth less when it was put in savings accounts. This created a crisis of confidence throughout the Korean population in the financial institutions.[103]

Not surprisingly, Koreans began investing their resources in markets other than financial institutions. The most popular market was in real estate. Land held its value, and was always a valuable commodity. Considering the density of the Korean population, land was an even more valuable commodity. This money was unavailable for use by industry for capital investment. The inflation was the driving force behind the relatively low savings rate in Korea until 1985 (not coincidentally, only three years after the government took steps to arrest the inflation).[104] This problem was called a lack of "the entrepreneurial spirit" by Shumpeter and "the problem of hoarding" by Rostow, as highlighted in Chapter 1.

The fourth and final problem of the inflation was that it contributed to the expansion of an underground, unorganized credit market. This market reached about half the size of the organized market in the late 1960s. Imagine the impact on an economy where half of the loans extended were underground, with no regulation as to the collection or to the interest rates charged. This was the case in Korea in the late 1960s and early 1970s, and the problem was alleviated only through the anti-inflationary steps of the government in 1982.[105]

Foreign Investment, Debt and the Korean Economy

In the same manner as many Third World nations, the economic growth experienced in Korea was a result of a heavy influx of foreign capital into that nation. Following the Korean War, money from the Point Four program flowed into Korea in greater sums than of other nations. This was a cognizant effort by the United States to help develop the nation so it was more advanced economically than its communist neighbor to the north. Therefore, foreign capital played an important role in the development of the Korean economy, and will continue to play a role in the performance of the economy in the future.

As table 7 shows, the debt owed by Korea is far greater now than even 15 years ago. The percentage of GNP and exports that will service the debt is far greater now than before. In 1977, the percentage of GNP that services the debt was a mere 3.7% For 1989, that percentage leapt to 13.0%. The percentage of exports needed for debt servicing is even more drastic. A mere 9.7% in 1976, the percentage of export earnings required to serve the debt in 1989 was a whopping 27.5%. And the trend is not favorable.

Contrary to the populat belief among modernization theorists, this condition of debt is not a natural or historic stage of economic growth. It is the result of the policies of the governments of both South Korea and the United States (and her allies) in the 1960s and 70s. In the name of fighting communism (by improving the lot of the poor), these two nations

Table 9
Debt Service Ratios
(in millions)

	Interest	Debt Service as a percentage of GNP	Exports
1962-66a	29	n/a	n/a
1967-71a	534	n/a	16.4
1972	326	n/a	20.1
1973	419	n/a	13.0
1974	490	n/a	11.0
1975	555	n/a	10.9
1976	752	n/a	9.7
1977	987	3.7	9.8
1978	1446	n/a	11.4
1979	1911	4.8	12.9
1981	1937	4.4	13.5
1985	1744	n/a	12.3
1987	2151	6.1	15.2
1989	2375	13.0	27.5

source: Compiled by author[106]
a= yearly average

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have put Korea in a huge debt. It did foster economic growth, but at what price? From a mere 29 million dollars in the 1960s, the interest payments on the debt alone ran over 2 billion dollars for 1989. And, as stated above, the trend is not favorable. Fortunately, Korea has been able to escape the debt cycle under which many nations fall; that is, increasing the principal of the national debt to service past debt. The economic growth must continue, however, if Korea is to avoid the cycle. This is high-risk policy.

The consequence of the debt is that it will tie up needed funds to help the less fortunate. In other words, the fruits of success will not go to the population, but to the nations and private investors who lent money to Korea in the 1960s and 70s.

Korea appears able to pay this debt, but the economic growth must last. Barring any unforeseen shocks to the economy, Korea should be able to successfully service its debt. Unfortunately, it will require substantial resource that could be used for other ventures. It could be used to further subsidize further development of the infrastructure (telephones are a relatively recent luxury afforded the common Korean citizen). Or, it could be used to develop more efficient export-oriented industry to further the balance-of-trade surplus. Or, it could be used to help provide shelter for the homeless and food for the hungry. It will be used, however, to pay off the investors in the Korean "Miracle on the Han." Hopefully, Korea will be able to avoid the problems the Brazilian economy has seen, the focus of the next chapter. In any case, its dependency on Western financial institutions is well-established, and its prosperity depends on the prosperity of the West. That is evidence of the "debt trap," a perhaps inevitable consequence of modernization theory.

CHAPTER 4

Brazil: From Take-off to Forced Landing

Brazil, dominating the South American continent, stands as one of the most impressive success stories gone awry. Once hailed as the "Brazilian Miracle," it now is failing under a huge amount of debt. Inflation runs wild, and unemployment stands in the way of true development. What follows is an attempt to understand how this condition came to pass, and perhaps a hint at correcting the economic decline of Brazil.

A Nation Called Brazil

Brazil sits on the Eastern coast of South America, with a land-mass surpassing one-half of that continent. It is the fifth largest nation in the world with respect to area. It has a huge population, and has suffered some of the population problems which are symptomatic of many Third World nations. It has experienced some economic growth, and ranks eighth in terms of total exports throughout the world. But it has a dual economy, which places it among the semi-periphery nations, using Immanuel Wallerstein's characterizations under the world systems theory.[107] The secret to understanding Brazil's economic story lies in its history. The policies adopted by each successive government illustrate the dependant nature by which Brazil was incorporated into the global political economy. The conditions also explain the lack of economic success which has plagued Brazil since colonization. Perhaps the most appropriate

Table 10
Specific Data on Brazil

	Population	Area	GNP per capita	avg. ann. growth	life expectancy
1977	110.0	8512	1140	4.8	n/a
1979	116.1		1360	4.9	62
1981	116.5		1780	4.8	63
1985	129.7		1880	5.0	64
1987	135.6		1640	4.3	65
1989	141.4		2020	4.1	65

source: World Development Report[108]

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manner to analyze these conditions is through a historical analysis of Brazil's economy, as it is tied to political considerations. It is under this premise that I proceed.

Historical Developments

Brazil, like most nations, has experienced a number of historical phases. These phases define the development of a nation, and together form the whole of history. Brazil's historical development, as well as its economic conditions, can be broken down into the following periods of governmental rule:

Table 11
Historical Development of Brazil

I. Colonial Period, 1500-1822
   1. Rule from Lisbon, 1500-1808
   2. Rule from Rio de Janeiro, 1808-22

II. Empire, 1822-89
   1. Pedro I, 1822-31
   2. Regency, 1831-40
   3. Pedro II, 1840-49

III. Old Republic, 1889-1930
   1. Military/civilian oligarchy, 1889-98
   2. Cafe com Leite, 1889-1930

IV. Transition Republic (The Vargas Era), 1930-45
1. Provisional government, 1930-34
2. Constitutional government, 1934-37
3. Estado Novo (dictatorship), 1937-45

V. Democratic Republic, 1946-64
1. Presidential government, 1946-61
2. Parliamentary government, 1961-63
3. Presidential government, 1963-64

VI. Military Government, 1964-85
1. Controlled Government, 1964-68
2. Authoritarian government, 1968-79
3. Liberalizing authoritarian government, 1979-85

VII. Post-Military Constitutionalism, 1985-present
1. Transitional government, 1985-90
2. Constitutional government, 1990-present

source: compiled by the author[109]

Colonization and Development

Brazil was developed as a colony as a dependant nation. It was seen as a cog in the Portuguese empire following the early settlement of the region in the mid-1550s. The first settlement was founded in 1530, at Sao Vincente (near present-day Sao Paulo). The Portuguese crown had difficulty convincing its subjects to settle the new colony, as natives and diseases struck the earliest settlers. To induce colonization, the crown created 15 somewhat autonomous captaincies, of which two were successful. Finally, in 1549, the crown centralized authority in the newly created capital of Bahia, in the present-day province of Salvador.[110]

The first export from Brazil was a colored dye made from brazilwood (hence, the name of the country). Eventually, the Portuguese learned to make this dye from indigo, which was a less

costly product that could be more easily harvested. Settlers in Brazil then began growing sugar in the northeast. Coffee was later cultivated in the land around Sao Paulo. These crops demanded large harvests, for the commodity itself was of little value unless produced in bulk. This reality fueled a labor shortage, which was alleviated by the introduction of the slave trade, in the 17th century.[111]

Crop cultivation was hurt by the discovery of gold in the Minas Gerais area in 1695. Farmers from throughout the nation left their land and began seeking gold in a manner not unlike the gold rush of 1848 in the United States. Some 1,000 tons of gold was mined from the region for the next 75 years, The gold rush created a number of phenomena. The population began to move into the interior for the first time in Brazil's young history. Minas Gerais sits about 200 miles into the interior. Lawlessness was the rule, as many people tried to avoid taxation on their gold. Therefore, the Portuguese crown benefitted only a fraction of what it could have by this discovery. This lawlessness also fostered a feeling of independence in the Paulistas who lived in the region. Finally, the sugar plantations faced a huge labor shortage, as people began mining gold. This created problems for the major economic force of the region.[112]

The sugar plantations' problems were exacerbated by the influx of Caribbean sugar to Europe at the same time. This illustrated the boom-bust characteristic which describes the brazilian economy. When the sugar price dropped, so did the

entire economy of Brazil. Caribbean sugar dropped the price sufficiently to convince Brazilians to seek another crop to supplement their staple crop.

There were a number of crops that supplemented sugar for Brazil. Tobacco and cotton production rose as a response to dropping sugar prices and productivity. Unfortunately, cotton cultivation was unproductive after the United States utilized Eli Whitney's cotton gin, while Brazil clung to the old, time-consuming method of deseeding the cotton.* Yet, none of these crops supplanted sugar as the driving force of the economy.[113] By the period of independence, Brazil discovered what would be its major export for the next 150 years, coffee. This was an important crop because it required a lesser amount of land, less labor, and it had not been fully tapped with respect to demand throughout Europe.[114]

Brazil grew very little in sustenance crops, with the exception of beans. When industrialization began to hit Europe, Brazil was denied the technology. Portugal wanted its colony to produce cash crops and nothing more. To make the land independent economically made little sense politically or economically. What Portugal preferred was a completely dependant colony, according to the principles of mercantilism. This economic theory states that the mother country would best be

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* It has been rumored that the cotton gin was created by Whitney's wife, but that has yet to be proven. (Heard by the author at Vermillionville, an old Cajun village just outside Lafayette, Louisiana, Spring, 1991.)

served by the exploitation of its colonies, while minimizing trade with other major countries. What this meant for Brazil was that it was completely dependant on Portugal, while it produced cash crops. This dependance would mark the Brazilian economy even in present history.

The Portuguese Inversion and Brazilian Autonomy

Brazil at the beginning of the 19th Century experienced a phenomenon unparalleled in history-- the colony became the ruler. This happened during the Portuguese inversion. Following the successful invasion of Portugal by Napoleon in 1808, Prince Joao, serving as regent, moved his court to Brazil. To justify this move, he made Brazil an equal in the Portuguese empire. When Joao returned to Portugal in 1821, he left his son Pedro as regent of the territory. This vastly enhanced the autonomy of the region.[115]

Another factor increasing Brazilian autonomy was the Napoleonic economic blockade of the European continent. Faced with the prospect of economic isolation, Great Britain increased its trade throughout the colonies. The British helped Joao out of Portugal, and in return, the Portuguese regent opened Brazil to British trade. At one point prior to independence, the tariff rate for the British in Brazil was lower than for Portugal. The British supported independence for Brazil following the defeat of Napoleon to keep these markets open, which fostered a desire for independence in the Brazilian people.[116]

Independence

In 1822, Portugal tried to force Pedro to return home to "finish his education." This would have amounted to an admission of Portugal's control over Brazil. Pedro refused, declaring "O Fico" (I stay). This amounted to a declaration of independence. With Britain's help, the Brazilians defeated the Portuguese in a relatively bloodless battle. Pedro then promulgated a Constitution and declared himself emperor of the Brazilian empire.[117] All in all, the Brazilian campaign for independence was painless and a rather simple endeavor.

Following Pedro's acceptance of the Portuguese crown in 1831, Brazil was governed by regents for the next decade. In this period, the autonomy of the regions was established. In 1840, this autonomy was curtailed by the eradication of the regency and the acceptance of Pedro II of the throne. This return to centralization was fueled by a rise of revolts in the regions, which produced fears of the caudilismo which split apart Spanish America. The largest of these revolts was that of the Farroupilla of Rio Grande do Sul, in the far south of the nation. A return to centralization reinforced British hegemony over the Brazilian economy.[118]

During the period of the empire, slavery was reinforced as the major means of labor throughout the new nation. British pressure for abolition, however, strained the institution. The slave trade was ended in 1851, and, in 1871, the Law of the Free Womb was established. This meant that all children of slaves

were born free. Finally, in 1888, just one year before the overthrow of the crown, slavery was outlawed. With the sturdiest pillar of the crown removed, the road was paved for revolution.[119]

The republican forces were bolstered by the political emergence of the military for the first time in Brazilian history. Following the War of the Triple Alliance (1865-70), the military began to see the crown as an impediment to the industrialization necessary for Brazil to assert itself as the strongest military power on the continent. In 1889, a military coup led by Deodoro de Fonseca overthrew the monarchy in a bloodless coup. This ushered in the period of the Old Republic.[120]

Civilian Democratic Rule

The Old Republic was dominated by regionalism, under what became known as the "cafe com leite" (coffee and milk) agreement. The regions of Sao Paulo (coffee) and Minas Gerais (milk) dominated the Presidency during this period. The two regions traded off the position, with a Constitutional provision banning consecutive terms. The regions were dominated by political strongmen (coronels) who were semi-autonomous.* Economically, the cash crops of coffee and sugar continued to dominate Brazil.[121]

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* This was much like the political bosses of the United States during the 19th Century.

The lack of industrialization led to a further politicization of the military. The young officers (tenentes) demanded that the government industrialize to increase the military potential of the country. In the political crisis of 1930, when Sao Paulo was reluctant to turn over the Presidency to Minas Gerais, the tenentes backed a candidate from Rio Grande do Sul, Getulio Vargas. Vargas would dominate Brazilian politics until his death in 1954.[122]

Vargas governed in three distinct eras. The first was a transitional government designed to rewrite the Constitution as to avert further domination along the lines of cafe com leite. He moved to diminish the power of the regions, while strengthening the national government in Rio. When elections were held under the new Constitution in 1934, Vargas was elected President. In 1937, when his term was about to expire, Vargas suspended the Constitution and declared the Novo Estado (New State). This was based on the personal dictatorship of Vargas and falangist economic arrangements modeled after Mussolini's Italy. The dictatorship ended in 1945, immediately following the Second World War.[123]

The economic policies of Vargas were based on the principles of import-substitution industrialization (ISI). ISI was needed following the collapse of the global trading regime in the 1930s, during the Great Depression. Imports were no longer available. Brazil moved to produce the finished products that it was no longer able to secure. The keystone of Vargas' economic

successes was the erection of the Volta Redonda steelworks in the early 1940s. Seen as a quid pro quo for Brazil's declaration of war against the Axis powers and its granting of access to the American of Brazil's Northeastern ports, it stands as the symbol of ISI during the Vargas regime. This steelworks was part of a huge package which saw over $600 million in military, economic, and technical assistance flow from the Roosevelt administration to Brazil. This period marks the first moment in Brazil's economic history that it began moving away from its dependency on Europe and North America for finished products.[124]

Following the war, Vargas was overthrown and Brazil returned to Constitutional status. Vargas' Minister of War, Eurico Dutra was elected, but accomplished little. Vargas returned in 1950, but was overthrown in 1954. He opted for suicide rather than retirement. Following a series of military maneuvers, Juscelino Kubitchek, one of the most ambitious political leaders in Brazilian history, took office in 1955. His promise of "Fifty Years Progress in Five" helped to define Brazilian economic development for many years.[125]

Under the Truman administration, the United States agreed to form the Joint Brazil-United States Economic Development Commission (JBUSEDC), but Eisenhower terminated the program. Embodied in the program were the plans later utilized by Kubitchek for his "programa de metas" (program of goals). Perhaps the most ambitious of these programs was the construction of a new capital in the interior of Brazil. These programs

tripled Brazil's external debt, and created a great deal of dependency on the United States in particular. Throughout the Kubitchek administration, relations with the United States were strained because of Eisenhower's reluctance to endorse the programa de metas and fund it adequately.[126] Nevertheless, even though Kubitchek did not quite deliver fifty years of progress, he was successful in a number of his programs. Unfortunately, he also created far more than fifty years of debt. Debt-financed development would become the fundamental policy of the regime that followed Kubitchek.

The next four years were dominated by Constitutional crisis, which eventually resulted in the overthrow of Joao Goulart in 1964. The military had been active in politics before 1964, but this coup marked the first time it maintained control of the government. It issued a number of Institutional Acts which limited political participation and legitimized military rule. By 1968, the military had instituted what Guillermo O'Donnell calls the bureaucratic-authoritarian state, marked with severe repression.[127] This period also saw some of the most impressive economic growth in world history.

Military Rule and Economic Growth

Termed by many as the "Brazilian Miracle," the period of 1968-73 saw double-digit GNP growth in every year. This growth was funded by a huge amount of foreign capital, especially from the United States. The debt continued to rise, but for a brief

moment, it appeared that Brazil was readying itself to join the most powerful economies of the world. Then came the oil shocks.[128]

In the mid 1970s, Brazil's achilles heel, its lack of oil deposits, ground the economy to a halt. Double-digit growth rates disappeared, and Brazil was saddled with a large debt that it found itself unable to pay. With the United States facing an economic repression in the 1970s, that nation's willingness to subsidize Brazil's debt problem lessened. The multinational corporations which were at the heart of Brazil's economic drive began repatriating their profits and investing in the sagging economies of their home country. Balance of payment problems ensued, followed by a enlarging of the debt. There was now no resources for development, as available capital was tied into debt servicing. The Brazilian Miracle was now a disaster.[129]

The military government diminished its level of repression following the slumping of the economy, and it eventually returned power to the civilians with little or no interest in returning. The recent Sarney government could do little with either the inflation problem or the debt problem which fuels it. In an attempt to reduce inflation, the new President, Collar, is now calling for a return of the multinationals which created the situation the nation now finds itself. Only time, and a further analysis of the role of foreign capital on the problems Brazil now faces, will tell whether Collar's policies are prudent.

<u>The Role of Foreign Capital in the Brazilian Miracle</u>

As seen through Brazil's historical incorporation into the global political economy, foreign investment has been an important element of the Brazilian economy. In the post-independence era, foreign capital was concentrated in finance and trade. The shipping and financing of coffee and sugar was dominated by British capital, which was seen as a quid pro quo for British support for Brazilian independence. During the second half of the 20th century, foreign capital flowed into Brazil to develop the infrastructure. The United States was very active in investment of this type. By 1930, half of the foreign capital in Brazil was British, while a fourthof the capital was American.[130]

The critique of foreign investment in Brazil prior to the Second World War is harsh to the programs adopted. The infrastructure was designed not to incorporate the whole of Brazil into the national economy, but to move agricultural exports quickly and efficiently. In addition, the cost of this foreign capital was excessive, because foreign companies were granted guaranteed rates of return on their investments and, the loan capital was extremely expensive.[131] Therefore, the benefits accrued in this period were achieved at perhaps too great a cost.

The populist/democratic period during and immediately following the war were driven by economic nationalism and a desire to rid the Brazilian economy of at much foreign capital as possible. Since the early 1950s, foreign investment has shifted

Table 12
Free Trade Exchange Rate, Net Production, And Implicit Export Taxes, 1954-70

Year	Free Trade Exchange Rate (cruzeiros per dollar)	Net Protection (percent of free trade rate)	Implicit Export Taxes (percent of free trade rate)
1954	39	54	32
1955	58	56	29
1956	69	68	35
1957	87	89	39
1958	99	72	34
1959	170	67	33
1960	220	42	28
1961	350	67	30
1962	570	74	35
1963	850	87	35
1964	1700	70	28
1965	2300	63	19
1966	2700	36	17
1967	3000	22	14
1968	new Cr 3.90	18	13
1969	4.90	22	12
1970	5.50	22	12

Source: Joel Bergsman[132]

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shifted from infrastructural projects to manufacturing. This is a result of Brazil's drive for ISI. It was also a reaction by the economic nationalists in Brazil who feared foreign control of the strategic sector. Prebisch's desire for structural change in the global political economy was the ideological justification for ISI following the reopening of the international trading order that occurred after the Second World War.[133] Much of this emphasis on the protection of infant industry ended with the military coup of 1964. One of the major reasons cited for the coup was the desire to reinvigorate the economy with foreign capital. Consequently, the military adopted policies that the

Table 13
Brazil's Foreign Economic Position: Balance of Payments Position
(U.S. $billions)

	Exports	Imports	Trade Balance	Service balance
1960-64a	1.34	1.25	.91	-.34
1965-69a	1.84	1.51	.33	-.51
1969	2.31	1.99	.32	-.64
1970	2.74	2.51	.23	-.82
1971	2.90	3.25	-.35	-.98
1972	3.99	4.23	-.24	-1.25
1973	6.20	6.19	.01	-1.72
1974	7.95	12.63	-4.68	-2.31
1975	8.66	12.17	-3.51	-3.56

source: Boletim do Banco Central do brasil[134]
a= yearly average

Table 14
Foreign Intervention in Brazil's Economy
(U.S. $ billions)

	Net Foreign Direct Investment	Net Foreign Loans	Foreign Debt
1960-64a	.07	.35	2.90
1965-69a	.08	.61	----
1969	.14	1.05	4.40
1970	.12	1.44	5.30
1971	.17	2.52	6.60
1972	.38	4.30	10.20
1973	.98	4.30	12.60
1974	.94	7.37	17.40
1975	.97	4.90	22.00

source: Boletim do Banco Central do Brasil[135]
a= yearly average

United States favored: the breaking of ties with Cuba in 1964 and the sending of troops to the Dominican Republic in 1965 are but two examples. In return, Brazil received nearly $1 billion dollars in foreign aid and investment from the U.S. government, the IMF, the World Bank, and foreign private banks.[136] While this helped fuel the magnificent growth rates of the 1960s and

70s, it also created the debt problem which Brazil now faces.

Economic Development and the Brazilian Miracle

The type of development the military regimes wanted was an enlargement of the manufacturing sector of Brazil. Each successive government wanted to reach Rostow's take-off stage and then rid the nation of the foreign capital that fueled the economic development. It would then initiate self-sustained growth. The United States of the 1960s was quite willing to provide capital for these large-scale development projects, for both ideological and financial reasons. As stated before, the military governments were anxious to support the U.S. in the Cold War (and in particular against Cuba) as a quid pro quo for greater foreign aid for industrial growth.* Foreign capital would be the driving force behing this new wave of economic development.[137]

As you can see from Table 16, the industrial sector was the main beneficiary of the stunning economic growth rates of the "Miracle." From 1968-73, double-digit growth rates were the norm. An almost unbelievable industrial growth rate of 15% for 1973 was the driving force behind the highest GDP growth rate of the period, an equally impressive 11.4%. But, as Table 14 shows, the direct foreign investment rate in that period also skyrocketed. Brazil was obviously set for a fall, which it did

* The government was also fiercely anti-communist, and believed that Castro was trying to export the revolution to Brazil.

Table 15
Average Annual Growth Rates, 1956-75

	Real GDP	Per Capita Real GDP	Industry	Agricult.
1956-62a	7.8	4.0	10.3	5.7
1962-67a	3.7	1.3	3.9	4.0
1968	9.3	6.3	15.0	1.5
1969	9.0	5.9	11.0	6.0
1970	9.5	6.4	11.1	5.6
1971	11.3	8.2	11.2	12.2
1972	10.4	7.3	13.8	4.1
1973	11.4	8.3	15.0	3.5
1974	9.6	6.5	8.2	8.5
1975	4.0	1.3	4.2	3.4

source: Centro de Contas Nacionais, Fundacao Getulio Vargas[138]

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following the oil shocks of that year. Industry slowed to such a degree that, by 1975, the growth rate was a mere 4.2%. And, as the industrial growth rate went, so did the national growth rate.[139] Agricultural growth rates remained essentially stable throughout the region. With the exception of 1971, (which can be explained by a superb crop of a sudden rise in the price of coffee), agriculture fluctuated with the market movements. Agricultural growth rates had little or no impact on the national growth rate.[140] Obviously, the government was successful at weaning the export economy away from agricultural products, but the industrial growth did not last. Rostow's concept of self-sustained growth in the take-off stage obviously fell apart when oil prices rose. Imports rose sharply in the year 1974 as a result of the rising oil prices. To finance these new imports, Brazil was forced to obtain new loan money, which is now exacerbating the debt problem. Therefore, an immense loan

Table 16
Average Annual Growth Rates, 1977-89

	GDP	Agricul.	Industry	Manufact.	Service
1977	9.8	5.8	10.7	n/a	9.9
1979	10.6	5.5	11.6	n/a	13.1
1981	8.7	5.0	9.6	10.9	8.7
1985	4.8	4.2	4.7	4.2	5.0
1987	1.3	3.0	0.3	n/a	1.8
1989	3.3	2.6	2.4	1.2	4.1

source: World Development Report[141]

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principle must be repaid, under conditions far less favorable than those under which the loan was issued.[142]

A second wave of economic growth was initiated following the recovery of the world economy in the mid-1970s. When oil prices stabilized, Brazil, supplied with new loans from Western banks armed with petrodollars, was prepared for a new round of economic growth. As Table 17 shows, the year 1979 saw double-digit economic growth return to Brazil. New oil shocks and a subsequent world recession soon stunted this growth. Again, agriculture remained relatively stable, while industry fluctuated, depending on the availability of oil. And as was the case during the "Miracle," as the industrial growth rates went, so went the national growth rate. But unlike the early 1970s, when oil prices stabilized, the Brazilian economy was so shaken that it could not recover. Growth rates remained quite low, and the ready pool of capital for economic development deteriorated. The debt dominated the new Brazilian economy, and threatened the stable democracy built on the heels of the military's retreat from power in 1985. Once again, Brazil was forced to land

following take-off.

Debt, Foreign Investment, and the Brazilian Economy

As I have suggested, the debt is the single greatest impediment to economic growth today in Brazil. It dominates the available resource pool of that nation, and impedes it in its quest for greater capital investment. It forces Brazil to look outside its borders for capital, especially to multi-national corporations which appear quite willing to exploit that nation's vast resources. In its attempts to service the debt, Brazil continues to overprint its currency, which in turn fuels rampant inflation. Finally, the debt problem damages Brazil's credit rating, which it needs for further economic development.

As Table 18 illustrates, since the early 1980s, debt service has consumed a huge amount of resources. By 1989, the interest accrued on the debt has multiplied more than 8 times what it was 12 years before. This is just the debt service; it does not include the principle. With interest rates continuing to rise, it is obvious that Brazil has been forced to accumulate greater debt just to service its past debt. This has put the nation in an unending cycle of debt accumulation; a cycle that is difficult to break. As Cheryl Payer would suggest, Brazil has been snagged quite well into the debt trap.[143]

The debt problem can be stated another way. Before the military coup of 1964, the yearly average debt was just under $3 billion. By 1972, that number was up to $10 billion. And by

Table 17
Balance of Payments and Debt Service Ratios (in $ U.S. millions)

	Interest	Debt Service as a % of GNP	Exports
1977	734	1.3	14.8
1979	1063	1.5	18.4
1981	2865	3.1	34.6
1985	5004	3.5	28.7
1987	6280	3.7	26.5
1989	5834	3.0	33.2

source: World Development Report[144]

1975, the foreign debt was at $22 billion. This debt fueled industrialization that was based on exports. In 1964, these exports were $1.43 billion; by 1974, they were $7.97 billion. Finally, during this period, Brazil replaced India as the recipient of the largest loans from the International Bank for Reconstruction and Development (IBRD, or World Bank) and the International Monetary Fund (IMF).[145] Obviously, the Brazilian economy was dependant on these institutions for its prosperity.

Debt was not the only factor in the creation of further dependency of Brazil on the global political economy. Foreign investment also drastically increased. Net foreign direct investment increased to 10 times its number in the 10 years from 1964-74. It rose from a yearly average of $70 million to one of $770 million in that time period.[146] With the problem of profit repatriation and the lack of sustained economic development, it is obvious the Brazilian Miracle did not translate to national economic development.

Chapter 5:

Conclusion

The original purpose of this thesis was to analyze modernization theory and assess its contributions to Third World development. The theory lent itself to the ideology of "development at all costs," to which the result was the creation of a huge debt crisis which now grips the developing world. This debt not only stunted the original growth that was accomplished, but also threatens to stunt any future plans for economic growth.

The policies adopted by the military governments of both Brazil and South Korea were bold. The Brazilian government believed that the magnificent growth rates would continue. The oil shocks were not anticipated. The government was playing a high stakes game, and unfortunately was beaten. The result is continued underdevelopment. Although the potential benefits of a victory were quite great, the repercussions of the defeat were equally harsh. With the economy almost completely stagnated, it is possible that the debt may irrevocably damage Brazil's chances for development. Considering the consequences of this underdevelopment (i.e. the prevalence of the favelas and extreme poverty), the stakes were simply too high.

The Korean government seems to have gambled and won. There are two questions that need to be addressed. First, how self-sustained is the Korean growth experience? Put another way, is the growth of the Korean economy going to last, or is it suspect to the type of economic shock that destroyed Brazil. I have no answer to this question, and leave it up to the reader and

history to decide. A corollary to this question is the question of what the actual economic growth was. Korea seems little more independent that it was in the 1950s. Since it relies on the generosity of the United States, (now primarily for markets for its goods), is it still reliant on the global economy for its prosperity? And, if so, is this negative? Again, I leave these questions for the reader and history to decide.

A second and more relevant set of questions asks, is the model of development for Korea generalizable throughout the Third World. The Korean model is based heavily on the Japanese model. Before attempting to answer this question, let me point to two realities which play significantly into the Korean experience. First, the United States wanted to use Korea as a model against North Korea and China. It was intended to be showcased as what capitalism could do vis-a-vis the citizen and the nation against what communism could do. Therefore, the United States poured far more economic aid into Korea than it would for other nations.

Even more important than the economic assistance was the willingness on the part of the United States to allow Korea to adopt neo-mercantilist trade policies to protect its infant industry. It was allowed to follow Prebisch's model for Import Substitution Industrialization without competition from the United States. Again, this was largely for geopolitical reasons. This hinders any possibility of generalizing the Korean model throughout the Third World.

I offer another model for development; one, I think that is

more efficient and more easily realized. E.F. Schumacher wrote Small is Beautiful, and very few economists accepted his premise. He challenged economists to stop conceiving of problems on a macroeconomic level. We should instead try to solve problems on a much smaller level. In other words, rather than adopting a policy to eliminate policy with one program (like the Title IX or Point Four), we should try to solve the smaller problems. Then we can add up these solutions and solve the larger problems.

Practically, this means using groups like the Peace Corps to teach the developing nations valuable technology, while not trying to turn them into Western nations. For far too long, the United States has tried selling tractor to the Third World, when iron ploughs were what was needed. Huge forests are destroyed, while farmers needlessly slash and burn potentially valuable land, turning it into a desert. Crops yield less and less, because many throughout the world have not been exposed to the wonders of crop rotation. These are the most significant problems. In other words, instead of turning Zaire into the United States, we need to work on developing Zaire.

Rostow's biggest flaw was that he conceived of self-sustaining growth as the ideal of all nations. He never discussed sustainable growth. Brazil reached high growth rates, but they were not sustainable because they were built on foreign capital. Rather than build fast, these nations must build to last. They must be allowed to develop slowly but autonomously, and protect their infant industries as the United States was

following its period of independence and consolidation.

Finally, I would like to say a word concerning the New Confucian Ethic. I do believe that sociological modernization theorists have discovered an important trait among the people of East Asia that contributed heavily to their development. The Ethic places primary emphasis on education and state intervention to manage the economy. Perhaps the Ethic itself is not generalizable, but every nation of the world can learn from its model. Even the United States needs to return to its commitment to education and using the state as a vehicle for development. Considering the success of the Japanese, it is past time for us to learn from them.

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