

A Comparison of the
Post-WWII Economic Development Strategies
of South Korea and Brazil

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Whittle Scholars Program
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Abstract

In my paper, I researched how closely South Korea and Brazil followed the strategies of their expressed economic growth plans, outward- and inward-oriented, respectively. I chose these two countries as representatives of East Asia and Latin America because of the similarities in their earlier economic positions, their concurrent growth, and the increasingly divergent outcomes of their economic policies. I found that both countries were more centrally oriented in their policies, combining a little of both strategies and finding the right mix for their economies and social structures. My paper is divided into three sections, one on the political climate just before and during the initial stages of development, another covering the protectionist role of the government, and a third on the role of multinational corporations and direct foreign investment in the development of Brazil and South Korea.

Inward-oriented economies are usually pursued by countries desiring more autonomy and less dependence on foreign markets for the demand of a country's own products or for the supply of products to that country's domestic market. Brazil has always preferred this plan and initially turned to foreign markets only to gain capital from the sale of her abundant natural resources. There is foreign direct investment in Brazil, but it is conducted under the watchful eye of the Brazilian government. Joint projects are actively encouraged and there are "local content" laws requiring that foreign manufactures buy their intermediate goods from local suppliers. Certain industries, such as petroleum and hydroelectric energy, are state-owned because the Brazilian government does not want any amount of foreign involvement in these key industries.

Outward-oriented economic plans are usually adopted by countries desiring an active role in international markets. It is important to note that South Korea began its First Five-Year Plan in 1961 with the intention of being inward-oriented. Japan and the U.S. were the major markets interested in South Korean development. Fresh from the W.W.II and Korean War battlefields, the people were in favor of independent development, especially without ties to Japan. Nonetheless, by the Second Five-Year Plan in 1964, South Korea had to abandon import-substitution. Aid from the U.S. had dropped dramatically and the country did not have the necessary resources to raise the capital needed to import industry and achieve agricultural self-sufficiency. The country was on the brink of a balance-of-payments crisis. South Korea turned to the sale of low technology, labor-intensive products in foreign markets to fund her industrialization.

The growth strategies of the two countries share many similarities, such as protection of domestic industries, government intervention in the economy, and the ultimate goal of political and economic autonomy. The key difference has been the responsiveness of their governments to the needs of the economy. South Korean officials reacted more quickly to the need for stabilization, liberalization, and export expansion. Brazilian officials attempted to "catch up" by implementing more drastic and, ultimately, less successful measures.

I. Introduction

Comparative analyses of the development patterns of Latin American and East Asian countries abound in the economics sections of any library. The two regions beg comparisons because of the similarities in their earlier economic positions, their concurrent growth, and the progressively divergent outcomes of their growth strategies. Countries in the two regions are also used as "real-life" comparisons of the effectiveness of inward- and outward-oriented development policies, with East Asia representing the former and Latin America the latter. This "typecasting" is effective when used as a general means of comparison for the two regions, but begins to break down on a country-specific level. It is this breakdown that I wanted to examine more closely. I chose to look at South Korea and Brazil with this goal in mind. Each is fairly representative of her region, yet both have differed enough from the inward and outward-oriented recipes for success to demonstrate how these broad generalizations can paint a picture of the path to development that is not completely accurate. It is much more accurate to realize that both countries combine parts of inward and outward-oriented strategies to create balances appropriate for their respective cultures and resources.

First, it is important to understand what is generally meant by an "inward-looking" or an "outward-looking" development policy. Todaro's textbook definition of an inward-looking development strategy stresses the concepts of "self-reliance..., the development of indigenous appropriate technology, the imposition of substantial protective tariffs and nontariff trade barriers to promote import substitution, and the general discouragement of private foreign

investment" (685). The same textbook defines the outward-looking development strategy as "encourag[ing] free trade, the free movement of capital..., and welcome to multinational corporations, and an open system of communication" (693). While not expressly mentioned in the definitions, these development strategies are often assumed to employ a certain amount of state intervention. Because of the emphasis on free trade and the free movement of capital, little government intervention is expected in outward-looking economies. Inward-looking economies employing tariffs and nontariff barriers are expected to have high levels of government intervention. It is very difficult for a developing economy to have little or no government intervention, whether inward or outward-looking, however, after development has progressed a bit, an outward-looking economy would be expected to allow market forces to act freely.

II. The Political Climate at the Start of Development

A. South Korea

The political climate at the onset of development is a large determinant of which growth strategy is chosen. Since South Korea had just come out of an extended period of occupation by the Japanese (1910-1948) ultimately ending in a war that separated her from North Korea, the country's leaders and people desired economic self-sufficiency and increased political autonomy. For this reason, South Korea began its development following the Korean War intending to employ import-substitution, concentrating on domestic markets that grew daily as North Korean refugees poured into the country.

South Korea's first elected president, Syngman Rhee, depended largely on U.S. aid for support during the first ten years of South Korean independence and did little to promote the development of the country. Because the U.S. considered the promotion of democracy in South Korea to be of the utmost importance, the amount of aid allocated to the country was substantial. During the 1950's, this amount is estimated to have averaged 15 percent of GNP in South Korea (James, et al. 103). The North had retained the majority of the country's physical resources and the industrial base left by the Japanese, while two-thirds of the industry in South Korea was destroyed in the Korean War (J. Kwon in Kwon 34). South Korean economic growth was virtually stagnant under Rhee, who was eventually forced to resign because of corruption in his government and the public's anger over the continuing economic decline.

Rhee's successor, Park Chung Hee, hoped to make South Korea less dependent on the U.S. and to regain more centralized political and economic control. He instituted South Korea's First Five-Year Plan in 1961-62 stressing agricultural self-sufficiency and the development of an industrial base financed by primary exports. Park negated earlier gains made toward a more democratic government by taking control of the press, outlawing demonstrations, and broadening the power of the state to arrest and convict dissidents. He also strengthened government ties to the economy. This strengthening was accomplished by founding a "government-dominated trade union federation (the Federation of Korean Trade Unions).... [n]ew economic planning institutions g[iving] him control of tariff and exchange-rate policy and the national budget....[and] by seizing all outstanding shares in the commercial banking system and tightening control over the bank of Korea,...[enabling him] to shape interest rates and credit

policy” (Hart-Landsberg 30). Chronic government corruption involving bribes, kickbacks, and manipulation of the South Korean stock market also evolved, problems hearkening back to the Rhee regime (Ibid.).

Under Park’s import-substitution plan, South Korea began to encounter huge deficits in the balance of trade despite large amounts of government spending. This was a particularly frustrating problem since the concept of producing goods locally for domestic markets instead of importing those same goods had been expected to encourage a stable balance of trade. U.S. aid that had controlled this problem during Rhee’s tenure had been reduced, and Park’s strategy was not leading to any type of sustainable growth. South Korea was too poor to rely on domestic demand to support growth and was on the brink of a balance-of-payments crisis. In the Second Five-Year Plan (1964-1965), the government was forced to switch to an export-led strategy, a move that would be continued in the five subsequent five-year plans (Ibid., 28).

This change in growth strategy was met with strong support by the United States and Japan. The U.S. had previously supported South Korea out of purely political motivations, to prevent the spread of communism; now she had economic incentives, as well. America wanted to reduce South Korea’s dependence on monetary support, while both the U.S and Japan saw a blossoming market for their exports and fertile ground for foreign direct investment.

Japan was interested in South Korea as a business partner for the same reasons she had taken South Korea as a Japanese colony in 1910 -- markets, human resources, and political clout in Asia. However, political relations between the two countries still were not normalized when

South Korea first began pursuing economic development. The Japanese had controlled large Korean farms during their occupation, farms that had been repossessed from the original Korean owners. Park recognized the mutual benefits of accepting monetary retribution from Japan for these property claims. South Korea would receive much-needed capital, and Japan would have “paid her debt” to South Korea, improving political relations and paving the way for Japanese investment in the developing country. Opponents of this move represented those with anti-Japanese sentiments as well as those in opposition to the Park government; the dissidents feared the increased power and control the Japanese resources would give political leaders. Ultimately, the military and the Japanese approved a settlement in 1962 that included a \$300 million grant, \$200 million in government-to-government grants, and \$100 million in commercial financing, creating a huge infusion of capital into the South Korean economy (S. Haggard and T. Cheng in Deyo 112).

Park’s centralized political system lingered even after the country moved toward an export-oriented growth path. Government intervention in the economy remained very high, as indicated by the many government incentives for exporting domestically produced goods. Protection for selected industries that had been introduced in the First Five-Year Plan continued long after the switch in growth strategies. Investment was concentrated into heavy industry such as steel, shipbuilding, petrochemicals, and cars. Economies of scale in these industries led to the development of large conglomerates¹ like POSCO, Samsung, Hyundai, Daewoo, and Lucky-Goldstar. The South Korean economy began to rely heavily on these huge

¹ These large conglomerates are often referred to by their Korean name, *jaebol* or *chaebol*.

companies, with the five mentioned earlier accounting for 22% of all manufacturing sales in 1987 ("Survey," 1988). See Table 1.

B. Brazil

The prospect of Brazilian development was also very attractive to developed nations, and especially to their multinational corporations (MNC's). Already drawn by Brazil's seemingly limitless supply of natural resources, the First World recognized the importance of expanding MNC's into Latin America. Additionally, the United States was sensitive to any effects the Cuban Revolution of 1959 might have on Brazil and other countries in the area. The U.S. government supported Brazil's efforts to adopt democracy and encourage economic growth in hopes it "would not only lead to development but would also avoid other Cuba's" (T. Bruneau in Bruneau 1).

Brazil's development had a more drawn-out beginning than South Korea's because an instantaneous political transformation never took place. Pereira describes Brazil as being a semicolonial country up until the Brazilian National Revolution in 1930. This event kicked off industrialization with the establishment of a domestic market through the liberation of the middle-class and the creation of a political climate conducive to development (Pereira 17). Pereira argues that the Revolution of 1930 also signified the end of the "agrarian-commercial oligarchy" that had been in power for four hundred years (15). After decades of military rule, the new "industrial bourgeoisie" and "urban proletariat" yearned for an independently successful Brazil. Again, import-substitution was the strategy of choice.

While Brazil was not a direct participant in the war, World War II did affect Brazilian development. Domestic demand increased as imports declined, nonetheless, industrial development was reduced due to a dependence on imported equipment. The end of the war coincided with the fall of the dictatorship of Getulio Vargas, a leader who had actively promoted state intervention in the economy as a means of expanding his dictatorial hold on Brazil. The replacement government possessed “[a] future orientation and a confidence in national purpose that could be called developmental nationalism” (Robock 42). After the brief return of Vargas and state capitalism, Juscelino Kubitschek was elected and proceeded to launch an array of economic development projects and to allow foreign capital to be invested in Brazil. The period from 1956-1961 cemented Brazilian industrialization with industrial output increasing at an average annual rate of 11% and the real domestic product averaging at a 6% annual growth rate. See Table 2. The emphasis on industrialization as a central goal was widely accepted by the military, the private sector, the general public, and political leaders.

Policy makers used the foreign exchange credits that had accumulated during the war to increase Brazil’s industrial base, and a rise in coffee prices accounted for an improvement in her terms of trade that also aided the acceleration of industrialization (Pereira 23). During the period 1945-1955, the average annual growth rate was 6.5% and total growth was 130% (Ibid. 21). Throughout this period the tariff policy first initiated in 1890 designed to protect domestic production remained in effect, excluding a brief respite in 1946-47. The Law of Similars² combined with the overvaluation of the *cruzeiro* kept the “demand for imports within levels

² First implemented in 1890, the Law of Similars states that imports can be restricted and even banned if similar, locally produced goods exist. See Mark Stephens and William E. Cole, “The Brazilian Motor Vehicle Industry: A Holistic Approach to Project Evaluation,” in *Journal of Economic Issues* XXII.1 (1988): 381.

compatible with the availability of foreign exchange" (Gomes 192). The importation of inputs was further facilitated by allowing foreign investors to import equipment free of charge. Many of the independence-oriented bourgeoisie disagreed with this incentive because Brazilians were not always the main beneficiaries. By the 1950's, the foreign investment opponents' calls for autonomy were drowned out by the penetration of transnational corporations. Multinational corporations' investments in Brazil were carefully monitored by the government. Officials pushed for joint ventures, especially through "local content requirement" regulations supporting local supplier companies (Robock 66). The Brazilian government had decided that rapid development partially financed with foreign capital they could control was more important than complete self-sufficiency achieved at a snail's pace.

Both countries began with political and economic autonomy through import substitution in mind. This strategy is necessarily more geared toward a country rich in natural resources. The two countries' huge differences in physical resources, at least in part, explain why South Korea, a nation sadly lacking in natural resources, could not support this strategy, even for its First Five-Year Plan, and Brazil, a country renowned for its abundance of primary commodities, continues today to rely on its resources to supply Brazilian industries, as well as for export earnings.

It should also be noted that both countries strayed from the usual understanding of what it means to be an inward or outward-looking economic nation. South Korea turned to an export-driven economic growth strategy only after failing in import-substitution. Park, representing the moods of most South Koreans, initially balked at the prospect of continued dependence on

the United States and, especially, Japan for economic success. After the First Five-Year Plan proved to be unsuccessful, he decided that foreign capital was necessary to turn the economy around. Only then did South Korea begin to implement outward-looking policies.

Brazil, on the other hand, benefited from higher levels of foreign direct investment than is generally expected from an inward-looking nation desiring autonomy. While known for her state-dominated economy, Brazil under Kubitscheck and others, nevertheless, actively encouraged foreign investment through the implementation of incentives such as the duty-free importation of industrial equipment. These incentives were especially geared toward areas emphasizing technology. Foreign investment was still avoided during the initial stages of industrialization in “strategic areas” such as the petroleum, steel, electric power, and finance sectors (Robinson 96). Outside of these sectors, however, foreign investment was welcomed.

The two countries desired economic development on their own terms, but broadened their scopes to include what was required to be successful. To succeed, South Korea would not have been able to rely on the exportation of primary products to support a heavy industrial base and both countries could not have relied solely on their domestic markets to have the buying power to finance industrialization. Their governments recognized these facts and took the situations into their own hands, implementing corrective policies that sometimes went against popular opinion and their own publicly expressed stances on the role of foreign investment in their economies. Their leaders discovered that the political preferences of the two countries did not always facilitate economic success.

III. The Role of Government in Development

A. South Korea

South Korea's government has been called the "senior partner" in South Korean business (C. Johnson in Deyo 138). This characterization is not far from the truth. The connection between government and business (especially involving the conglomerates) cannot be overstated. In addition to the government's active promotion of key industries and zealous exporting through incentives, the government's role in the economy was also manifested in its control of credit institutions and banks. This power, more than anything, inextricably linked government and conglomerates. See Table 3 for a breakdown of government export incentives. Song describes South Korean economic decision-making as having been "overwhelmingly a 'top-down' process" in *The Rise of the Korean Economy* (140). The paradox of private enterprise operating under the thumb of highly centralized government policy-makers has long been a subject of debate. In his article "Political Institutions and Economic Performance: the government-business relationship in Japan, South Korea, and Taiwan," Johnson maintains that the key word describing the relationship between government and business is "coexistence" not "domination," but as South Korean businesses have become less dependent on perks and favors from government, increasing numbers of businessmen have complained about what they consider to be the over-reaching role of government in financial decision-making. Their discontent combined with the complaints of trading partners have led to the government lessening its control incrementally over the past ten years.

The government took control of the economy very early in development. Once an export-driven strategy was decided upon at the advent of the Second Five-Year Plan, a number of economic measures promoting this choice were put into effect by the government: (1) the *won* was devalued; (2) a unified floating exchange rate system replaced the multiple exchange rate system; and (3) tax exemptions, export subsidies, tax breaks on the importation of intermediate goods for export industries, and foreign exchange loans were all adopted. See Table 4.

Corporate tax incentives were increased and large government loans were given to selected industries and “channeled through a tight nexus of government, banks, and businesses” (Kwon 35). These “selected industries” were, on the whole, only the industries showing the most promise since all were infant industries at the start of industrialization.

The government loans given to selected companies served two purposes- first, to jump-start industry and, second, to hold these businesses accountable to the government. The second purpose illustrates how conflicting this partnership was/is with the basic nature of entrepreneurship in a capitalistic society. In his article “The Uncommon Characteristics of the Korean Economic Development,” Jene K. Kwon describes these government policies as having effectively “tak[en] the risk out of entrepreneurship” (Kwon 36). The conglomerates flourished since they were the main recipients of these safety-net loans. The government was, in effect, creating comparative advantages for certain industries.

The government also intervened in another key area of the economic landscape. The promotion of exports was not accompanied by import liberalization like one would expect in a competitive, outward-looking economy. Imports were strictly controlled by tariff barriers and

quantitative restrictions until liberalization was first attempted in 1978 (Ibid. 39). However, these industries receiving protection were strongly encouraged to become internationally competitive. High profits were reinvested in industry, and the profits from new technology were taxed at low levels. Domestic prices could not exceed international prices for prolonged periods. These protected industries were expected to be competitive in international markets within a few years (James, et al. 33). This “safety-net” was not available indefinitely, and the industries were aware of that.

The gradual import liberalization that began in 1978 continues to the present. For example, quantitative restrictions were removed on 1000-1250 items³ between 1986 and 1994 (United Nations 207). From the mid-80's on, South Korea has pledged to liberalize its economy. Protection still exists in some key industries and domestic trade unions continue to be influential in forming import policies, but direct subsidies, quantitative restrictions, high tariffs, and government-sponsored loans have been discarded. Korea's chronic bilateral surplus with the U.S., for example, had roused much criticism and negative press. South Korean officials eventually recognized that they could not afford to not liberalize. Table 5 illustrates the declining percentage of imports with restrictions and the declining average tariff rate on those restricted imports between the years 1978 and 1985..

South Korea's protectionist measures aside, the country's exports have been unusually prone to protection abroad. See Table 6. In his article “Korean Trade as Outlier,” Petri attributes this to Japanese-triggered heightened sensitivity to trade imbalances (Kwon). South Korean exporting

³ In 1990's, the restrictions removed have primarily involved agricultural products.

was initially facilitated by trade restrictions against Japan in key South Korean manufacturing sectors such as steel and automobiles. After a period of success, the importing nations recognized the same trade problems in their dealings with South Korea, and proceeded to establish restrictions on Korean exports, as well.

B. Brazil

South Korea's attitude toward protectionism is pivotal in the overall comparison of Brazil and South Korea. In *Asian Development*, James, Naya, and Meier postulate that "the degree and duration of protection afforded to an industry is a significant factor in its subsequent development" with "high rates of protection for prolonged periods usually result[ing] in inefficient, monopolistic industry" (33). These are the very charges often leveled against Brazil. Critics say that, unlike South Korean industry, Brazilian industries do not face the possibility of government protection coming to an end and, therefore, businesses become inefficient and unable to compete internationally without subsidies.

There exists another, more favorable view of Brazil's history of state intervention. In *Development and Crisis in Brazil, 1930-1983*, Pereira describes the interventionist/protectionist model as the more bourgeois-oriented economic strategy, and economic liberalism is portrayed as the "ideological arm of the Brazilian rural aristocracy" (70). The author maintains, as do others, that Brazil's cultural and historical background centering around huge plantations, or *latifundios*, would have lead to the established aristocracy always being the most competitive and ultimately the most successful in a laissez-faire economy. Ultimately, this perpetually dominant aristocracy would have prevented "the

emergence of an industrial entrepreneur class" (Pereira 71). It can be inferred, therefore, that the emerging middle-class believed that, through the adoption of an inward-looking economy driven by state intervention, Brazil would not only achieve international independence, but that they would finally liberate themselves from the Brazilian ruling class.

Whether one agrees with Pereira or not, the fact remains that Brazilian protectionism and the expansion of the state-owned sector have steadily decreased since the late-1970's. The national government did not publish statistics on the number of state-owned firms until the early 1980's. In 1993, there were over 700 state-owned firms, with 50 of those representing the most significant in terms of investment and size. The largest 10 government-owned firms account for approximately 67 percent of federal assets (Robinson 97). The Figueiredo administration began the push toward privatization in all sectors excluding utilities, mining, and transportation in 1979. Manufacturing, commerce, and agriculture are almost exclusively in private hands now, and the trend is expected to continue (Ibid.)

The Figueiredo government made even more sweeping changes to Brazilian interventionist policies in 1979. In March, export subsidies were reduced and completely eliminated by December. This resulted in a 40% drop in export incentives, from 62% in 1979 to 37% in 1980 (Clements 21). Subsequently, the *cruzeiro* was devalued by 30% to compensate exporters (Ibid.). Certain subsidies were reintroduced in 1981, but the role of subsidies in economic policy has continued to decrease throughout the 1980's. Manipulation of the exchange rate has emerged as the principal policy tool (Ibid.).

IV. The Role of Direct Foreign Investment and Multinational Corporations

A. South Korea

While direct foreign investment has become progressively more important in South Korean economic growth, debt was initially the key tool used in financing the country's development. Unlike the other Asian Tigers, South Korea borrowed heavily in international capital markets which shifted some of the emphasis away from direct foreign investment (DFI) and the involvement of multinational corporations (MNC's). See Table 7. Between 1967 and 1971 foreign savings averaged 39.5% of total savings, though only 3.7% of this was direct foreign investment. During that same time period, direct investment accounted for over 30 percent of total capital flow in Brazil. From 1972-76, foreign savings had dropped to 25% of total savings in South Korea, with DFI accounting for 7.9% for the total inflow of foreign capital. It was 23% in Brazil between 1972 and 1976 (S. Haggard and T. Cheng in Deyo 94). The government channeled these borrowed funds into its selected industries, "preferr[ing] the local bourgeoisie to multinationals as its main partner in promoting export-led industrialization" (Lim 130).

The South Korean system of government incentives and protection for domestic industry limited the impact of MNC's. In certain sectors, such as electronics, multinationals dominated the industries, but government support for local businesses allowed these businesses to develop production experience and expand technologies without "going under." Government protections were especially effective in keeping MNC's out of heavy industries. What resulted was a "sectoral pattern of foreign investment" with the concentration of DFI shifting over time

(Ibid. 95). Investment began in textiles, apparel and electronic components during the early stages of development. Later, in the 1970's, DFI shifted toward consumer and industrial electronics. The role of MNC's can be better explained in Table 8. In the two leading sectors, textiles and "other," which accounted for over half of all manufactured exports, MNC's accounted for approximately 13% in both sectors. Yet, in the third leading sector, electronics, MNC's accounted for almost 90%. These figures demonstrate how the role of MNC's could be misconstrued. Far from being dominant in all sectors of manufacturing exports, the MNC's played a key role in one main sector and several more minor sectors, for example metal products and machinery (Ibid. 96). Overall, the conglomerates, strengthened by protectionist measures, served as the backbone of development.

Government and the conglomerates actively pursued joint ventures involving DFI. Early in development, DFI was completely shut out of certain sectors, but as the need for foreign technology increased, these restrictions were relaxed. Companies proposing at least 50% local ownership were automatically approved. If local ownership was less than 50%, the proposal was subject to approval by the government (Balassa in Kwon 11).

Japan and the United States have been South Korea's major investors and trading partners. The two countries also played crucial roles in the advancement of technology in South Korea. The United States is South Korea's most important export market, and many have argued that South Korea is too dependent on the U.S. market. The U.S.'s share of Korean exports reached its peak in 1986 at 38.5% and 36% in 1990 (Petri in Kwon 63). Japan provided one-third of

imports in 1990, making her South Korea's largest import source, despite government policies aimed at diversifying sources.

In *Asian Development*, James, Naya, and Meier note that when Japan and the U.S. first began investing in South Korea, the two countries focused on different sectors. Between 1962 and 1972, Japanese investment was geared toward labor-intensive, low-technology industries. U.S. investment, in contrast, was more focused on skill-intensive, high-technology industries. However, from 1973-1978, Japan shifted her investment toward skill-intensive, high-technology industries, as well. The United States has always maintained a higher level of capital-intensive industries, but the mutual concentration in high-technology areas continues to the present day. James, Naya, and Meier conclude that Japan's shift in foreign investment from low-technology to high-technology mirrored a similar shift in the Japanese domestic economy (125).

B. Brazil

Between 1947 and 1967, state-owned companies dominated the developing Brazilian economy. This trend toward state-owned business continued, even after the proliferation of DFI in Brazil. Privatization efforts were not pursued until approximately 1980 and not actively pursued until the late 1980's (Glade in Baer and Coes, 83). A strong sense of nationalism and a desire for autonomy in special sectors such as petroleum and electric power, had led the country to choose import substitution, and this same decision left the economy in need of capital. Brazil's history of political instability kept many potential investors away, forcing the government to fund much-needed infrastructure and invest in industry. In *Brazil: The Giant*

of *Latin America*, Robinson explains that “state ownership in Brazil has sometimes been a matter of ideology, sometimes a pragmatic means of speeding up the process of economic growth” (93).

In the 1960's, Latin America realized that her current method of industrialization was not moving the area economies any closer to independence, so she began to restructure her trade policies (O.M. Goma in Sunkel 273). Integration among the Latin American countries was promoted and the Latin American Free Trade Association was formed (LAFTA). LAFTA eventually evolved into the Latin American Association for Integration (LAIA) or *Asociacion Latinoamericana de Intergracion* (ALADI) in the 1980's. The trend toward integration continued into the world market. Brazil followed Chile's lead in 1967, implementing export-oriented shifts in policy. These changes were manifested in two main ways: 1) quotas were replaced with ad valorem tariffs; and 2) the exchange rate policies were revamped to avoid currency overvaluations (Ibid. 274).

The new strategy worked, and with it came an increase in DFI and MNC's. These elements, in turn, led to an increase in manufactured exports and a general diversification of exports.. See Table 9. While not listed in the table, Goma quotes the percent of total exports accounted for by manufactures in 1960 as 3.6%. In 1970, this figure had increased to 15.3%, and escalated to 54.9% by 1985. During this same time period, the percent of total exports represented by basic agriculture plummeted from 64.7% in 1970 to 27% in 1985. The injection of foreign capital and technology was a huge boost to Brazilian manufacturing industries.

The substantial decrease in the percent of Brazilian exports accounted for by basic goods cannot be explained by changing terms of trade relative to manufactured goods. Clements describes the drop as being a result of the combined stagnation in the demand for basic goods and the boom in demand for manufactured goods during the 1970's (90). The comparison of growth rates for the two categories illustrates the high growth rate of manufactures and the declining growth of basics in this time period. See Table 10.

In addition, it is important to note that the two types of integration mentioned earlier, regional and international, initially centered on two different kinds of exports. In 1970-71, 51% of the exports to neighboring and other developing countries were capital and labor intensive, while only 20% of nondurable consumer goods were exported to those same countries (O.M. Goma in Sunkel 275). These percentages reflect the difficulty of competing with developed countries in areas involving technology and/or large economies of scale. Table 11 reflects this same phenomenon in 1985. Over 40% Brazilian exports to the U.S. and Canada are agricultural products, the amount of agricultural products averages 70% in Europe. Two-thirds of Brazilian exports to Japan in 1985 were agriculture and minerals. In contrast, the largest sector of exports to other ALADI⁴ countries is machinery and equipment at 20.7%. Agricultural products account for only 12.5% of total exports to these countries.

In *Foreign Trade Strategies, Employment, and Income Distribution in Brazil*, Clements rejects this explanation. He states that, by the 1970's, Brazilian exports to other developing countries was "just as labor-intensive as those sold in the United States" (106). Clements

⁴ Formerly LAFTA.

maintains that this “anomalous situation” in the 1970’s arose from trade restrictions within ALADI, and that the re-emergence of the earlier trade structure represented in Table 12 is actually the result of Brazil’s comparative advantage in capital intensive industries with the rest of Latin America.

Brazil’s range of trade partners is not as concentrated as the other Latin American countries. Latin America, as a whole, trades mainly with the United States. Most economists agree that bilateral trade dependence restricts development choices, especially if one-half of the partnership is considerably more powerful than the other. The Brazilian government tried to avoid this problem. Between the years 1960 and 1980, Brazil reduced her export dependence on the U.S. significantly through continued trade liberalization and intraregional trade. Brazilian exports to the United States decreased from 44% in 1960 to a low of 15% in 1975 (Sanderson 124). Currently, Brazil exports approximately one-fourth of her total exports to the United States (Ibid. 125).

V. Summary

In analyzing the development of South Korea and Brazil, one finds many similarities. Both protected their domestic industries through export subsidies and import restrictions, such as tariffs and quotas. Both experienced high levels of government intervention in their economies during the early stages of development. South Korea’s government owned and controlled credit institutions, thereby determining which businesses would receive loans and capital and effectively deciding which companies succeeded and which did not. The Brazilian government

not only funded, but actually owned a large number of businesses in the country, completely dominating key sectors, for example petroleum and mining. The two countries also shared a similar goal for development, to become more economically and politically independent. This goal, in turn, led to their mutual interest in joint ventures with MNC's and a general distrust of foreign direct investment where local businesses had less than a 50% stake in the project. In short, Brazil and South Korea used many of the same tools to facilitate economic growth. See Table 4.

South Korea diverged from the typical outward-looking economy in many ways. Her expected focus on exporting was accompanied by multiple unexpected protective measures, such as tariffs, quotas, and subsidies. Often, South Korea emerged as more of an intermediate case between the Latin American and East Asian development examples, than as the model of an outward-oriented economy.

Brazilian policy, on the other hand, differed little from what one would expect of an inward-oriented country. Direct foreign investment was allowed with restrictions, and the government enacted a number of measures liberalizing the economy in an effort to rejuvenate growth following the oil shocks of the 1970's. Nonetheless, high levels of government intervention and protectionism were the most common fixtures of the Brazilian economy throughout the post-W.W.II development era.

Even with the large number of similarities in their policies promoting economic growth, Brazil and South Korea are still regarded as having chosen two very different development strategies.

One key difference between the countries' behaviors has been the responsiveness of their governments to the needs of the economy. The South Korean officials reacted more quickly to the need for stabilization after the oil shocks, liberalization, and export expansion, while Brazilian officials attempted to "catch up" by implementing more drastic measures that were, ultimately, less successful. This lag in reactive policies was often the deciding factor in which country more successfully weathered a crisis in the short-term, and sustained the growth and development of the economy in the long-term.

Table 1
Jaebul Share in Manufacturing Sector (in percent)

Groups	Sales	Sales	Sales	Employ ment	Employ ment	Employ ment	Value Added	Value Added
Year	1978	1982	1985	1978	1982	1985	1982	1985
Top 5	15.7	22.6	23.0	9.5	8.4	9.7	17.4	18.7
10	21.2	30.2	30.2	13.9	12.2	11.4	23.1	24.2
20	29.3	36.6	36.4	18.2	16.0	15.5	29.4	34.4
30	34.1	40.7	40.2	22.2	18.6	17.6	33.2	39.6

Source: Updated from Kyu Uck Lee, *Business Combinations and Economic Concentration* (in Korean), Seoul: KDI Press, 1985.

From Kwon, p. 327.

Table 2
Brazil: Real Domestic Product and Industrial Production (average annual growth rate by periods)

Period	Real Domestic Product (%)	Industrial Output (%)
1940-1945	4.7	6.2
1946-1950	7.3	8.9
1951-1955	5.7	8.1
1956-1961	6.0	11.0
1962-1965*	1.9	2.4

*Estimate for the first six months.

Source: Fundacao Getulio Vargas and CEPAL.

From Pereira, p.22.

Table 3

Korea: Composition of Export Incentives, 1968

Form of Incentive <u>a/</u>	Value of Incentive as Percentage of Total Merchandise Exports
Tariff Exemptions	14.4
Indirect Tax Exemptions	7.0
Wastage Allowance <u>b/</u>	2.4
Overhead Rate Reductions	0.4
Direct Tax Reductions	1.1
Interest Subsidies	4.5
Total	29.8

Note: Korea derived a substantial amount of foreign exchange by "exporting" nontradeables through U.S. military procurement. In addition, there were some service exports. With the single exception of tourism (a very small sector in 1968), no preferences were given to producers of nontradeables for "export."

a/ Because information concerning the export-import-link subsidy was closely held, we were unable to obtain estimates of it, though it is known to have been small in 1968.

b/ The wastage allowance subsidy on each imported intermediate input has been estimated by taking the "excess" wastage rate times the difference between the domestic price of the import (inclusive of nominal protection) and the domestic currency equivalent at the market exchange rate of its c.i.f. import price (exclusive of tariff). "Excess" wastage rates were estimated on the basis of an informal survey by the authors and then checked against other estimates.

Source: Larry E. Westphal and Kwang Suk Kim, "Industrial Policy and Development in Korea," World Bank Staff Working Paper, no. 263 (Washington, D.C., 1977), p.3-39. From Balassa, p. 217.

Table 4

Comparison of Adopted Economic Measures

	Brazil	South Korea
currency policy	multiple devaluations of the cruzeiro	devaluation of the won
exchange rate system	multiple exchange rate system and a flexible exchange rate system	unified floating exchange rate system
other policies	wage indexation, tariffs, export subsidies, subsidized loans, price controls	tariffs, quotas, subsidized loans, export subsidies, tax breaks

Table 5

South Korea: The Share of Imports Under Average Control and the Average Tariff Rate, 1978-85 (in percent)

	Share of restricted import items*	Average nominal tariff rate
1978	46.1	38.7
1979	31.8	24.9
1980	30.9	24.9
1981	30.6	24.9
1982	25.3	23.7
1983	23.4	23.7
1984	19.6	21.9
1985	12.3	21.3

*At the beginning of the year.

Sources: The Korean Ministry of Commerce and Industry and Ministry of Finance, as cited in Suh Sang-Mok, "The Evolution of the Korean Economy in Historical Perspective," presented to the World Bank Conference on Structural Adjustment in a Newly Industrialized Country: Lessons from Korea (Washington, D.C.: World Bank, mimeo, June 1986), p. 35.

From Lin, p. 124.

Table 6

Protection Faced by Exports to Developed Country Markets

Exporter	NTB Coverage (% value)	Tariff Rate
Korea	35.2	6.6
United States	16.1	3.8
Japan	18.2	3.9
Other Developed	20.3	4.1
East Asian NIC's	29.2	6.1
East Asian LDC's	26.3	5.3
Other Developing	27.0	5.1
Average	20.9	4.3

Source: Peter A. Petri, "Korea's Export Niche: Origins and Prospects," *World Development*, 16, January 1988, 47-63.

From Kwon, p. 78.

Table 7

Foreign direct investment as a share of gross domestic capital formation in the gang of four, selected years (percentages)

	Hong Kong	Singapore	Taiwan	Korea
1960	----	----	0.5	----
1965	----	----	1.6	2.7
1966	----	12.5	1.3	.6
1968	----	15.1	2.6	.9
1970	----	21.5	2.8	1.1
1972	4.3 a	23.2	1.3	2.6
1974	2.3 b	6.0	1.4	2.8
1976	1.2 c	6.5	1.2	1.5
1978	0.8 d	----	1.5	.7
1980	----	----	----	.4

a. average, 1971-73.

b. average, 1974-75.

c. average, 1976-77.

d. average, 1978-79.

Sources. For Hong Kong: calculated from Mun and Ho, 1979; Ho, 1979; Hong Kong, TI&CD, 1979. For Singapore: Yuan, 1972; Gish, Tan & Co., 1978; Singapore Dept. of Statistics, various issues. For Taiwan: data on foreign investment supplied by the Investment Commission, Ministry of Economic Affairs; capital formation figures from Republic of China, CEPD, various years. For South Korea: data on foreign investment supplied by the Ministry of Finance; capital formation figures from Bank of Korea, various years.

From Deyo, p. 95.

Table 8

Role of foreign firms in South Korea's manufactured exports (1974) and total value added (1977), in percentages

	Sectoral share of total Korean exports	MNC share of exports, by sector	Sectoral distribution of MNC exports	MNC share of total value added
Textiles and apparel	39.8	12.2	15.4	10
"Other"	16.3	12.6	6.5	na
Electrical and electronics	12.3	88.6	34.6	27
Chemicals	10.0	57.3	18.4	13
Wood products	7.2	2.1	18.4	na
Metal products	3.1	84.2	8.3	na
Transport equipment	3.1	.7	.1	8
Petroleum products	2.6	56.2	4.7	23
Clay products	2.1	75.0	5.1	na
Machinery	2.0	93.4	5.9	9
Food	2.0	8.6	.3	na
Total, manufacturing	100	31.4	100	na

Sources. Calculated from Chung Lee, 1980, 1981: "U.S. and Japanese Investment in Korea: A Comparative Study." *Hitotsubashi Journal of Economics* 20:26-41.

From Deyo, p. 96.

Table 9

Composition of Brazilian Exports, 1970-1985 (Percentage of Total Exports by Category*)

Year	Basic Agriculture	Mining	Semi-Manufactured	Manufactured	Other
1970	64.7	10.0	9.0	15.3	1.0
1971	58.3	10.3	8.5	19.7	3.2
1972	59.1	7.3	10.0	22.5	1.1
1973	58.3	6.7	9.3	23.1	2.6
1974	49.2	8.4	11.5	28.5	2.5
1975	45.0	13.0	9.8	29.8	2.4
1976	49.8	10.7	8.3	27.4	3.8
1977	49.5	7.9	8.6	31.7	2.3
1978	38.5	8.7	11.2	40.2	1.4
1979	33.5	9.4	1.4	43.6	1.1
1980	33.6	8.6	1.7	44.8	1.3
1981	29.8	8.5	9.1	51.0	1.6
1982	30.9	9.9	7.1	50.8	1.3
1983	31.3	7.7	8.1	51.5	1.4
1984	26.0	6.3	10.6	56.0	1.1
1985	27.0	6.4	10.8	54.9	1.1

Note: "Other" category includes reexported products and special transactions.

*Percentage shares calculated as a share of the dollar value of exports.

Source: *Relatorio da Cacex*, various yearly issues, and *Brasil, Comercio Exterior, Estatisticas*, various yearly issues.

From Clements, p. 92.

Table 10

Destination of Brazilian Exports, 1985

Country	Country Total (\$1000 U.S. FOB)	Percentage of Total Exports
U.S.	6,955,930	27.13
Canada	427,510	1.67
Latin America	2,428,869	9.46
European Economic Community	6,227,434	24.29
Rest of W. Europe	1,483,182	5.79
Eastern Europe	1,032,192	4.03
Japan	1,397,792	5.45
Other Asia	1,775,978	6.93
Middle East	1,469,718	5.73
Africa	1,778,657	6.93
Oceania (1)	186,100	.73
Undeclared and Other	422,574	1.85
Total	25,639,011	100.00

Note: (1) includes Australia. Total does not add up to 100.00 due to rounding.

Source: *Brasil 1985: Comercio Exterior, Series Estatisticas* (Rio: CACEX, 1986), p. 405.

From Clements, p. 106.

Table 11
 Yearly Growth Rates of Exports by Category, 1970-1985
 (Percentage Yearly Growth in U.S.\$)

Year	Total	Basic	Semi- Manufactured	Manufactured
1970	18.5	14.1	18.1	46.4
1971	6.0	-2.9	-.8	39.7
1972	37.4	33.1	61.7	54.5
1973	55.3	52.1	43.7	59.7
1974	28.3	13.6	59.7	57.8
1975	9.0	9.8	-7.3	14.2
1976	16.8	21.9	-.9	7.4
1977	19.7	13.9	24.0	38.3
1978	4.4	-14.1	36.1	32.4
1979	20.4	9.6	32.8	30.7
1980	32.1	29.5	24.5	35.9
1981	15.7	5.1	-9.9	31.6
1982	-13.4	-7.6	-32.3	-13.7
1983	8.6	3.6	24.3	10.0
1984	23.3	2.6	56.7	34.2
1985	-5.1	-1.9	-4.0	-7.1

Note: "Other" category includes reexported products and special transactions.

Source: *Relatorio da Cacex*, various yearly issues; *Brasil, Comercio Exterior, Estatisticas*, various yearly issues.

From Clements, p. 91.

Table 12

Composition of Exports for Various Countries and Country Groups, 1985
(Percentage of Country's Total Exports by Sector)

	U.S.	Canada	ALADI (1)	Other L.A.	EEC
Agriculture	44.8	44.6	12.5	27.8	62.5
Textiles	3.3	13.1	5.1	4.9	4.3
Chemicals	4.5	3.2	12.0	9.3	3.9
Minerals	11.0	17.5	7.7	9.3	11.4
Metallurgy	10.6	9.7	12.6	7.6	5.4
Mach., Equip.	13.7	6.5	20.7	14.5	5.8
Tran. Mat'l	4.6	.8	14.7	10.0	4.0
Other	7.5	4.6	14.7	16.6	2.8
Total	100.0	100.0	100.0	100.0	100.0

	AELC (2)	E. Europe	Japan	Other Asia	Middle East
Agriculture	74.2	68.8	31.0	22.7	48.4
Textiles	8.0	7.8	2.7	2.9	.9
Chemicals	3.5	.9	6.1	3.9	.6
Minerals	1.9	16.2	35.6	10.0	2.6
Metallurgy	2.1	5.0	16.4	47.9	10.3
Mach., Equip.	3.0	.1	5.4	3.9	2.8
Tran. Mat'l	4.4	.1	.0	1.6	27.7
Other	3.0	.9	2.8	11.1	6.7
Total	100.0	100.0	100.0	100.0	100.0

	Africa	Oceania (3)	Rest of W. Europe
Agriculture	14.3	30.4	68.5
Textiles	2.8	10.4	1.0
Chemicals	1.4	4.2	12.7
Metallurgy	5.0	13.6	15.3
Mach., Equip.	4.2	25.1	.6
Tran. Mat'l	16.1	4.8	.2
Other	8.4	11.5	.5
Total	100.0	100.0	100.0

Note: Totals may not add up to 100.0 due to rounding.

(1) Latin American Integration Association, which includes Argentina, Bolivia, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.

(2) European Association of Free Trade, which is comprised of Austria, Norway, Portugal, Sweden, and Switzerland.

(3) Includes Australia.

Source: *Brasil 1985: Comercio Exterior, Series Estatisticas* (Rio: CACEX, 1986), pp. 400-415.

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