

# **Political Conflict and Development in East Asia and Latin America**

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 **Routledge**  
Taylor & Francis Group  
LONDON AND NEW YORK



HC  
460  
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P76

First published 2006  
by Routledge  
2 Park Square, Milton Park,  
Abingdon, Oxon OX14 4RN

Simultaneously published in the USA and Canada  
by Routledge  
270 Madison Ave, New York, NY 10016

*Routledge is an imprint of the Taylor & Francis Group,  
an informa business*

© 2006 Selection and editorial matter, Richard Boyd, Benno Galjart,  
and Tak-Wing Ngo; individual chapters the contributors

Typeset in Garamond by Keyword Group Ltd  
Printed and bound in Great Britain by Biddles Ltd, King's Lynn

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*British Library Cataloguing in Publication Data*  
A catalogue record for this book is available from the British Library

*Library of Congress Cataloging in Publication Data*  
A catalog record for this book has been requested

ISBN10: 0-415-36318-7  
ISBN13: 978-0-415-36318-1

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## **2 East Asia's success and Latin America's failure: agrarian reform, industrial policy and state capacity**

*Cristóbal Kay*

There has been an ongoing debate over the causes of the spectacular economic success achieved by the East Asian newly industrializing countries (NICs) and the lessons that other developing countries can learn from this development experience. While Latin America started to industrialize many decades before the East Asian NICs it was quickly overtaken in the last few decades. This chapter seeks to explore the agrarian and political economy roots that may explain the different development trajectory and performance between the East Asian NICs, particularly South Korea and Taiwan, and Latin America. The analysis focuses mainly on three interconnected factors in seeking to understand why the East Asian NICs outperformed Latin America: (1) state capacity and policy performance or "statecraft," (2) character of agrarian reform and its impact on equity and growth, and (3) interactions between agriculture and industry in development strategies.

The impressive economic success achieved by the East Asian newly industrializing countries (NICs), Taiwan, South Korea, Singapore and Hong Kong, since the 1960s has led scholars and policy-makers to look more closely at this development experience to discover if any useful lessons could be learned by other developing countries, and Latin America in particular.<sup>1</sup> While some authors have argued that there are no or few lessons to be learned as this success story cannot be generalized,<sup>2</sup> others, in particular the World Bank and neoliberal economists, have argued that the main lesson to be learned from the East Asian NICs is that free markets, free trade and an export-oriented development strategy are the key to economic success.<sup>3</sup> Thus countries that had pursued protectionism and import-substitution industrialization (ISI) policies came in for heavy criticisms by the World Bank and advocates of neoliberal economic policies. This has generated many debates and the neoliberal interpretation of the NICs' economic success has been challenged and shown to be flawed.<sup>4</sup>

### **State and agriculture in development**

It is now generally accepted that the success of the NICs was largely due to the crucial role played by the state which also involved at times selective

protectionist policies.<sup>5</sup> Even the World Bank has come to admit, though reluctantly, that the state was heavily involved in the NICs' development process.<sup>6</sup> Nevertheless, it still argues against a developmentalist state and for a minimalist role of the state in economic affairs. Many developing countries influenced by the experience of the NICs have attempted to emulate their dramatic industrial export performance with varying degrees of success. While more balanced commentators are aware that the inward-directed development process of those countries that had followed ISI policies in the postwar period was not the disaster story it had been made out to be, and, on the contrary, was in some instances even more successful than the record of some countries that had followed neoliberal policies, they are now more aware of the limitations of ISI and of the development opportunities which a greater integration into world markets can offer. This can be exemplified by the evolution of structuralist development thinkers and institutions like the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) who have shifted to a neostructuralist position by taking on board the merits of certain neoliberal policies and recognizing some of the advantages which greater integration into world markets can provide.<sup>7</sup> In the past few decades a second generation of NICs has emerged, particularly in Asia, such as Thailand, Malaysia, Indonesia and China, which were especially keen to promote industrial exports. In Latin America, countries that had already gone through an ISI process were now eager to move into industrial exports, especially Mexico and Brazil.

Much of the focus by analysts interested to learn from the NICs' experience has been on industrial and trade policy and less so on agricultural policy. Most studies refer to a particular country or region and few have a comparative focus across regions. In this chapter I seek to explore the relationship between the agricultural and industrial sectors, and especially agriculture's contribution to industrialization, by comparing some Asian and Latin American countries. Furthermore, to what extent are differences in agrarian structure, landlord-peasant relations and state policy significant factors in explaining variations in the development performance between the two regions? In particular I am interested to examine to what extent agrarian reforms have made a difference to their economic and social development. For the Asian region I have selected South Korea and Taiwan as they have undertaken extensive agrarian reforms and have been among the most economically successful Asian countries. For Latin America I am drawing on the experience of a greater number of countries, distinguishing between those that had only marginal land reforms and those that undertook radical land reforms. My aim in this comparative exercise is to achieve a greater understanding of the reasons why the Asian NICs succeeded in outperforming so dramatically Latin America, which once was at the forefront of the developing world, and by implication draw some lessons for Latin America from the East Asian NICs but being fully aware of the different historical circumstances.

Many analysts consider the nature of the intersectoral relationship between agriculture and industry as being of prime importance for explaining differences in the development performance between countries.<sup>8</sup> Although the debate on whether agricultural development is a prior requisite for industrialization or whether both can be concurrent processes is still unresolved, few specialists question that the performance of the agricultural sector will have a major bearing on a country's industrialization. To achieve a successful industrialization a country will have to resolve the problems associated with the generation, transfer and use of an agricultural surplus. This is particularly important in the initial stages of industrial development. There are various ways in which an agricultural surplus can be defined and measured, which does not need to concern us unduly here. A common and simple meaning of agricultural surplus refers to the total value of agricultural production minus what the agricultural sector retains for its own consumption and reproduction. It thus refers to that part of agricultural output that is not retained by the sector itself and which is transferred to other economic sectors through a variety of means. This can be defined as the gross agricultural surplus. The net agricultural surplus is equal to the above less what the agricultural sector purchases from other sectors, such as industrial consumer and investment goods as well as services. Once an industrial sector has established itself it can generate the necessary surplus for investment from within the sector and the need to extract an agricultural surplus becomes less urgent. At later stages of economic development the flow is often in the opposite direction, with an industrial surplus helping to finance agriculture.

There are also various ways in which an agricultural surplus can be transferred to other economic sectors such as voluntarily or compulsorily and in a visible or "on the table" and invisible or "under the table" manner. These distinctions between various mechanisms for transferring an agricultural surplus are made not only to illustrate the great variety of resource transfers which exist but also because some mechanisms are considered to be more appropriate or more efficient in achieving certain developmental goals as compared to others. The analysis should not be confined to a discussion of an agricultural surplus and the various transfer mechanisms but should also be viewed within the more general and dynamic context of a development process. In this context analysts and policy-makers should focus on three major issues. First, what is the best way to increase agricultural output by ensuring sufficient incentives for farmers to invest and innovate? Second, which are the most suitable mechanisms to extract an agricultural surplus ensuring that not too much is extracted so as not to kill the goose which lays the golden eggs? Third, what is the best way to use this agricultural surplus for industrial development so as to ensure that the resources are not wasted in financing an inefficient industrialization process? Thus the right balance has to be struck and appropriate linkages have to be developed between agriculture and industry so as to bring

about a virtuous cycle of economic growth and reinforcing positive interactions between agriculture and industry. A comparative analysis between the East Asian NICs and Latin America within this framework can help us to understand better the reasons for the uneven economic performance of the two regions.

In what follows, I first explore to what extent South Korea's and Taiwan's comprehensive agrarian reform and abolition of landlordism was a significant factor in its subsequent successful industrialization as compared to Latin America where agrarian reforms were implemented, if at all, only after its industrialization was well on its way. I then discuss South Korea's and Taiwan's agrarian transformations as well as the various contributions which agriculture, in particular the peasantry, made to their industrial miracle. Subsequently, I compare South Korea's and Taiwan's development strategy and experience with that of Latin America. The comparative analysis focuses on three key issues: state capacity and policies, agrarian structure and class relations, and the significance of certain forms of intersectoral resource flows in development. Finally, I attempt to reach some general conclusions.

### **Latin America and East Asia in contrast**

One important difference between the selected Asian countries and Latin America concerns the timing of the agrarian reform. In South Korea and Taiwan, agrarian reform came before any significant industrialization had taken place and was a key ingredient in the subsequent successful industrialization process. Most agrarian reforms in Latin America happened after industrialization was already firmly established and were often seen as a way to revive the flagging industrialization process due to what has been termed the "exhaustion of the easy phase of import-substitution industrialization." But land reform was not considered as a prerequisite for industrialization in Latin America while in Taiwan and South Korea land reform was a major factor in getting their industrialization started. I will argue in this chapter that a crucial difference for explaining the superior economic performance of Taiwan and South Korea compared to Latin America is that a thoroughgoing agrarian reform took place in these Asian countries before industrialization and not the other way round as in Latin America, with the exception of Mexico. Furthermore, Taiwan's and South Korea's agrarian reforms had a far greater redistributive impact than the Latin American agrarian reforms, with the possible exception of Cuba. It is this rural equity factor which was to have a major positive impact on Taiwan's and South Korea's industrialization and was the missing ingredient in Latin America's industrialization.

The abovementioned sequencing factor is rarely mentioned, if at all, in the comparative analyses of the East Asian and Latin American development experience. It should be borne in mind though that the main reason

for the agrarian reforms in both regions were political rather than economic. While in South Korea and Taiwan the landlord class was swept from power at the time of the agrarian reform, in Latin America they managed to hold on to power during the first stages of the industrialization process, managing to block or delay any sort of reform of the land tenure system. Even when the landlord class no longer could prevent an agrarian reform they often managed to curtail its implementation or even reverse the process with agrarian counter-reforms. In Brazil, even today, landlords have been able to forestall any significant agrarian reform process. This political issue will be discussed further later on in this chapter.

In Taiwan and South Korea, as well as in Japan which once ruled over these countries, agriculture has been an essential source of accumulation for industry and the state was effectively and ruthlessly central to the whole process. Taiwan and South Korea differ from pre-1945 Japan as in their cases the landlord class was practically absent as most had been expropriated by the time these countries started to industrialize in the 1950s. Instead, the landlords' place was taken by a repressive but developmentalist state which imposed agricultural modernization from above and appropriated the peasants' economic surplus to set up, finance and direct the industrialization process. Thus in Taiwan and South Korea agricultural modernization was achieved without the landlords, contrary to Japan where landlords played an important part in raising agricultural productivity, thereby increasing the potential agricultural surplus, but also in facilitating the appropriation and transfer of this surplus from agriculture to industry particularly during the Meiji period. It was, of course, the peasants and tenants who generated the bulk of this surplus. All this was achieved by the developmentalist policies of the powerful and authoritarian Meiji state.

Meanwhile in Latin America, with the exception of Mexico, agrarian reform came when ISI had largely outlived its purpose. Thus Latin American governments saw agrarian reform as a means of widening the internal market for domestic industry, giving it a new lease of life due to the expected income distributional effects in favor of peasant beneficiaries. Governments also hoped that food output would rise thereby avoiding increases in food prices and hence pressure for higher wages by industrial workers. Increases in food output would also help to keep agricultural imports in check and thus free scarce foreign exchange earnings for essential imports required by domestic industry. Furthermore, in Latin America, unlike in Taiwan and South Korea, land reform was not seen as a mechanism to squeeze agriculture. On the contrary, it was realized that, at least in its initial phase, land reforms might possibly require more resources from the rest of the economy, particularly from the state, than hitherto. Land reform was also seen as a means of making agriculture more attractive to rural labor, thereby hoping that rural out-migration might decline. This was a desired goal as Latin American industrialization had been unable to provide sufficient employment, so rural out-migration created an unwanted burden

for the urban sector and the state. Meanwhile in the Asian countries the rural sector's provision of an abundant and cheap labor force was welcomed by the rapidly expanding industrial sector.

By comparison with South Korea and Taiwan, agrarian reform in Latin America came too late and generally was too limited.<sup>9</sup> They were too late in the sense that Latin America's agrarian reform came after industrialization had already made significant progress and a certain industrial structure had already become firmly established after half a century or longer. But this does not necessarily mean that Latin America's agricultural sector did not make an important contribution to its industrialization. My argument is that an earlier, and above all, more drastic agrarian reform in Latin America would have given a timely and far greater impetus to Latin America's industrialization as well as creating a different type of industrial structure which would also be geared towards satisfying the demands for industrial products by the lower income groups. A more egalitarian income distribution would have resulted in a more appropriate industrial structure that would be more labor intensive and less demanding of foreign exchange. It might thus have made the industrialization process more sustainable by, for example, avoiding the "exhaustion" or crisis experienced by ISI due to the smallness of the domestic market and the foreign exchange constraint.

When the land frontier began to reach its limit in Latin America (in some countries already in the 1930s) the easy phase of agricultural expansion came to an end and competition between the economic sectors for capital became more intense. Continuing agricultural growth required increasingly capital investments, new technologies and changing production patterns to more profitable agricultural products. In the postwar period Latin American agriculture increasingly failed to meet the demands of industrialization, becoming an obstacle to further economic development. Agriculture's share in the value of total Latin American exports declined from well over half in the 1950s to one-fifth in the 1990s, while the share of agricultural imports within total imports increased.<sup>10</sup> In some Latin American countries a previous positive agricultural trade balance even turned negative: agricultural imports began to exceed agricultural exports.<sup>11</sup>

The increasing failings of agriculture prompted governments into action. They put in place a series of measures from the 1950s to try to encourage modernization of the estates and commercial farms. Among such measures were subsidized credits for the purchase of agricultural machinery and equipment, for improving the quality of livestock, for acquiring fertilizers and improved seed varieties, and for the delivery of technical assistance programs. Consequently large commercial farmers began to shift to crops with higher value-added which were in increasing demand by urban consumers and to capitalize their enterprises through land improvements (for example drainage and irrigation), upgrading infrastructure, mechanization, etc. Thus a shift towards the intensification of Latin American agriculture started to take place but agricultural production was still unable to keep

pace with the increasing requirements of industry for cheap food and foreign exchange. Furthermore, demands for land reform became increasingly vociferous during the 1950s and 1960s when the failings of the agricultural sector became more evident. Government technocrats were willing to contemplate mild land reforms on the increasing evidence by scholars and international agencies which showed the inefficiencies of the prevailing agrarian system, which in its basic structure had remained the same since the colonial period.

Industrialization and urbanization changed also the political landscape as the emerging industrial proletariat supported anti-establishment parties. The peasantry also grew increasingly restless, as it was no longer willing to accept either its poverty or the domination of landlords. Peasant discontent and protest was becoming more widespread and intense. Political parties of the center and the left became more willing to channel the demands of peasants and therefore included the agrarian reform issue in their political programs. While rural unionization, better wages and working conditions had already been part and parcel of some of these programs, the land reform issue added a qualitatively new element as it potentially challenged the economic and political hegemony of the landlord class. In short, both economic and social pressures put the land reform issue on to the political agenda.<sup>12</sup>

Indeed, agrarian reforms were implemented in most Latin America countries, largely from the 1960s to 1980s. However, they were often restricted in scope and thwarted in their aims by opposition forces or by government mismanagement. In some cases landlords even managed to reverse the peasants' gains via counter-reforms. Thus today inequality, poverty and social exclusion are still prevalent throughout most of rural Latin America.<sup>13</sup>

### **Agrarian transformation and industrialization in Asia**

In this section I will examine the characteristics of South Korea's and Taiwan's agrarian transformations and, in particular, the contribution which agriculture and the agrarian reforms made to their remarkable industrialization process. I will then, in the next section, undertake a comparative study between the Asian cases and Latin America.

#### ***Agrarian reform and development in South Korea***

Korea was a Japanese colony from 1910 to 1945 and South Korea gained its independence in 1948. It was largely a rural country with over four-fifths of the population being rural in the mid-1940s. Landed property was concentrated as about half of the farmland was owned by less than 5 percent of farm households. However, most of the land was actually farmed by tenants and some hired laborers. Tenants were mainly sharecroppers living

at subsistence levels. At the end of the Second World War in 1945, the landlord-tenant system predominated. The South Korean land reform was a typical land to the tiller program as all tenants were entitled to ownership of the land they farmed. As expected, farm ownership greatly increased after the land reform, constituting almost 70 percent of farm households; tenancy declined to 7 percent in 1965, although it increased thereafter to the extent that, by 1986, 30.5 percent of the country's total farmland was under tenancy. This is a much higher percentage compared with Japan's 7 percent and Taiwan's 5 percent.<sup>14</sup>

Various factors worked in favor of the implementation of a sweeping land reform. Above all there was the overriding need to neutralize communist influence and reduce class conflicts so as to stabilize the newly established republic politically given the conflict with North Korea and the internal turmoil. The war with North Korea eliminated any possible landlord opposition to the land reform and strengthened the claim of tenants to land ownership. For geopolitical reasons the country received major international support, especially from the USA, politically as well as economically. The US administration was strongly in favor of the land reform program. The implementation of the agrarian reform was facilitated by the existence of a relatively competent bureaucracy and of adequate records on land ownership and tenure relations. There were many obstacles to overcome, such as the country's limited land-base, resulting in many farms being below an optimal size. Despite some difficulties the agrarian reform was a major success. With the reduction in class differences and the transfer of ownership rights to tenants, class conflicts were substantially reduced and political stability was achieved in the countryside. The rural sector released a steady supply of labor to the urban sector that made possible the rapid expansion of the labor-intensive industrialization and underpinned its export success. By the late 1960s the urban population was already half of the country's total population and the rural population was even declining in absolute terms, alleviating the pressure on land. Last, but not least, the agricultural sector released a major economic surplus in the form of an abundant and cheap supply of food and raw materials to the urban sector. Until the early 1960s the state extracted a surplus from peasant farmers by fixing procurement prices of certain staple foods below the cost of production, and thereafter they continued to be fixed below market prices but allowed for a meager profit. Although foreign aid reduced the need to squeeze the peasantry it did not prevent the squeeze, but ameliorated it. For example, PL 480 food aid turned the terms of trade against agriculture from 1963 to 1971.<sup>15</sup>

Evidence indicates that the transformation of tenants into owners created a major incentive for the increase in efficiency and production, mainly of rice, achieved by the peasantry.<sup>16</sup> The standard of living improved only gradually for the peasantry despite their sustained increases in productivity, thereby explaining the massive exodus of the rural population to the cities

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in search for better conditions. Much of this increased efficiency was creamed off by the state to finance the industrialization process. The state played an active role in promoting this higher efficiency but this was done in an authoritarian manner and without much economic support from the state. Owing to the disappearances of the landlords the state filled the political vacuum and directly controlled the mass of the peasantry. This was achieved by dispatching a large number of government officials into the countryside, by appointing village leaders, through political indoctrination and direct mobilizations of the rural population. The state also made peasants dependent by establishing a monopoly over key agricultural inputs such as fertilizers, credit and irrigation. Peasants were often forced to accept government directive and had to negotiate on an unequal basis with local government officials on the supply of inputs and sale of their output. Much coercion was applied to thrust high-yielding-variety seeds and technological packages on an often reluctant farming population. Through these methods the dirigiste and authoritarian state forced the pace of agricultural modernization to the extent that South Korean farmers achieved exceptionally high yields at a very low financial cost to the state.<sup>17</sup>

Government authorities had hoped that landlords would provide a major source of finance for industrialization but due to the limited compensation payments this was only partially achieved. Most of the funding for industrialization came from the economic surplus extracted by the state from the peasantry. Another important source was foreign aid and later foreign investment. Food aid in particular played an important role during the 1960s when the country imported large quantities of cheap or free food from the USA. The state played a pivotal role in supplying foreign exchange and investment resources to industry at a highly subsidized rate. The state could accomplish this as it owned many banks, intervened heavily in financial markets and controlled the foreign exchange allocations, besides fixing the interest and foreign exchange rates. For example, the amount of subsidy received by industry in the allocation of foreign exchange amounted to about 10–14 percent of annual gross national product (GNP) during the 1950s and industry received almost half of total domestic bank loans in 1970 while contributing only one-fifth to GDP.<sup>18</sup>

In short, the state played a key role in the development process of South Korea. The state was strong and had a high degree of autonomy from the domestic classes in deciding what specific forms of capital accumulation to promote. Through the land reform a relatively egalitarian farming system was created but at the same time the state greatly increased its control over the countryside. About half of the total farmland was transferred to the beneficiaries and two-thirds of all farm households received land under the land reform. Practically no landless peasants or agricultural proletariat exists and socioeconomic differentiation is limited. However, the state subordinated the rural sector to the overriding goal of industrialization. Thus rural-urban disparities widened as the fruits of the spectacular economic

growth were shared only to a limited extent with the peasantry.<sup>19</sup> It is thus not surprising to find that the peasantry voted with their feet by emigrating on masse to the urban sector, providing the necessary cheap labor for rapidly growing labor-intensive industries. It could be argued that South Korea's phenomenal economic success was achieved on the back of the peasantry.

#### *Agrarian reform and development in Taiwan*

The agrarian reform in Taiwan was implemented against the background of a popular uprising in 1946 and the need for the Kuomintang government to gain popular support in the countryside as well as impose its authority on the local Taiwanese elite. The nationalist forces of the Kuomintang, who had to flee from Mainland China after their defeat by the communist forces led by Mao, formed the Taiwanese government. They were of a different ethnic background than the local Taiwanese and were thus keen to gain legitimacy among the local population. The land reform consisted of three stages. First, as from 1949 onwards farm rents were reduced from the common rate of 50 percent of the harvest down to 37.5 percent. This measure benefited about 40 percent of all farm households. At the second stage the government sold all the land which had been in the hands of Japanese nationals, benefiting roughly 20 percent of tenant farmers and covering about a fifth of the country's farmland. In the third and final stage, the Land-to-the-Tiller Act of 1953 was ordained by which landlords were obliged to sell all tenanted land above 3 hectares of paddy field (or equivalent) to the government which then resold it to tenants. Landlords received a fair price and the payments by tenants for the land did not exceed the 37.5 percent they previously paid as rent. By 1956 the number of tenant farmers constituted only about 16 percent of all farm families while owner-farmers had increased to almost 60 percent of the total, the remainder being largely part owner-farmers having own land as well as a tenancy.<sup>20</sup> The government achieved two goals simultaneously by, on the one hand, transforming most tenants into owners and, on the other hand, transforming landlords into new entrepreneurs as they were compensated with shares in publicly owned industrial enterprises or with government bonds which they could invest in business and other new ventures.

Among the factors which contributed to Taiwan's successful agrarian reform are the wide diffusion of improved farming methods due to a well organized system of agricultural extension, major investments in irrigation and drainage, an effective credit system which helped to finance the use of modern inputs, and an expanding market for agricultural produce. Sometimes the state-driven innovation package was too forceful as force was used to compel peasants to adopt the new technologies by using some of the police as extension workers. Innovation in agriculture was

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characterized by increased use of fertilizers and agrochemicals combined with greater use of new crop varieties. Furthermore, the expansion of irrigation facilitated the spread of the green revolution technologies and allowed multiple cropping. What is remarkable is that the shift to more intensive cultivation patterns had already started in the mid-1920s when Taiwan was a Japanese colony. The Japanese made significant efforts to develop agriculture in their colony by reforming the tenancy system and promoting new techniques, new varieties of seeds and inputs, such as chemical fertilizers, through the formation of a variety of farmers' associations who provided extension services to their members. These non-mechanical innovations were well suited for Taiwan's small-scale and labor-intensive farming where the average farm size varied during the last century between one and two hectares. Land and labor productivity rose steadily as a consequence of the widespread application of these innovations.<sup>21</sup>

In the postwar period the agricultural sector made a major contribution to industrialization and the country's development. There was a major transfer of agriculture's economic surplus to the rest of the economy. While before the war an important instrument for this transfer was the land tax, after the war the less visible terms of trade mechanism accounted for over half of agriculture's capital outflow and the remainder was captured by a variety of taxes and levies. Farmers had to pay high prices for fertilizers and other chemical inputs while they received low prices for their produce. For example they had to deliver a certain quota of rice and sugar at low prices to the government procurement agencies. Owners of paddy land were obliged to deliver to the state a quota of rice and to pay a substantial land tax in rice. Furthermore, fertilizer was available to rice farmers only in exchange for rice. These deliveries to the state were valued at a rate below the market rate. For example, in the period 1952-68 this averaged 70 percent of the market price.<sup>22</sup>

The extraction of various surpluses from agriculture undoubtedly made a major contribution to the initial stage of industrial development. The provision of cheap rice kept industrial wages low, boosted industrial profits and enhanced industrial exports. Taxes on agriculture provided the state with domestic financial resources that could be used for investment in industry. The export of sugar and rice, which was acquired through the monopolistic state procurement system of these agricultural commodities, on the one hand allowed that the terms of trade could be turned against the farmers and, on the other hand, generated valuable foreign exchange earnings which the state could channel toward the import of the necessary machinery, equipment and raw materials for industry. The manipulation of the terms of trade also ensured that agricultural labor was willing to work for lower wages in the industrial sector than would have been the case otherwise as the returns to agricultural labor were lower than they would have been without agriculture's unfavorable terms of trade.

Taiwan's industrialization differs from South Korea's in that large industrial conglomerates were less common and many industries were located in rural areas. This had the advantage that rural industries could pay even lower wages than urban industries as they could draw more easily on cheap labor which was willing to work at a lower wage rate as some of the subsistence expenses were covered by the farm household where the worker continued to live. It also made it easier to hire and fire workers as well as employ them on a temporary basis as they could always rely on the peasant household for their survival. This is one of the reasons which made it more difficult to organize industrial workers and is also a factor which helps to explain the low level of industrial militancy.

Despite this squeeze farmers continued to innovate as well as save their meager surpluses, thereby helping to finance Taiwan's industrialization. According to Ishikawa and Karshenas, these driven-from-above improvements in agricultural productivity made it possible for agriculture to generate a major economic surplus which the government effectively captured and steered largely toward the industrial sector.<sup>23</sup> At a later stage, as farm household incomes gradually improved and voluntary savings increased, it was no longer necessary for the state to use compulsory or hidden mechanisms to achieve the same objective. The state made major efforts to promote voluntary rural savings in the countryside by a variety of incentives and by establishing a series of savings and banking institutions in rural areas, to the extent that by the 1960s rural households were saving one-fifth of their incomes.<sup>24</sup>

While many authors highlight Taiwan's success only a few emphasize the less pleasant aspect of this modernization from above. Among these few is Apthorpe who argues that the distributivist land reform was but a façade behind which an authoritarian regime defended its own existence as well as ensuring a massive transfer of resources out of agriculture.<sup>25</sup> The former tenants had to pay new taxes to the state, pay higher prices for inputs and received lower prices for their products than before the land reform. The state had taken the place of landlords in terms of power and surplus extraction. Moreover, the fact that landlords had been expropriated removed the countryside's most influential force in agricultural policy-making. The land reform was also designed to destroy the base of the emergent middle class, as it was to aid the tenants. It was the middle class that had produced the leaders of revolts against the Japanese and in 1947 against the Kuomintang. From a political point of view the land reform achieved its objective by reducing tenancy conflicts and by transferring power in the countryside from landlords to statal or parastatal authorities. While in the past it was landlords who subjected the peasantry, after the land reform it was the state. This also facilitated control of the state over the Farmers Association. Nevertheless, the Farmers Association played a major role in the success of the agrarian reform and the rapid development of agriculture. Peasant household farmers also found it notoriously difficult

to organize politically. Thus farmers were in a weak position to resist the state's squeeze. Nevertheless, the massive squeeze of the peasantry should be put in perspective; in the intersectoral capital flow from agriculture to industry the requisitioning of Japanese assets and the massive US aid was also important, contributing almost a third of total capital formation in the 1950s.

But the industrialization-induced squeeze lasted only for decades, as there was a shift from urban to rural bias during the 1970s. During the country's successful industrialization the labor surplus gradually vanished and real industrial wages began to rise.<sup>26</sup> Agricultural labor costs increased too, and agriculture was unable to keep up its dynamism. This prompted the government to abolish the rice-fertilizer barter scheme in the early 1970s.<sup>27</sup> Within a few years the official rice purchase price almost doubled. Agriculture became increasingly inefficient relative to world agriculture and required increasing protection against imports. It also became a net recipient of subsidies from the state. The shift from industrial to agricultural bias was made possible also by the fact that industry was now able to generate its own surplus for financing capital accumulation. While peasant farming was an initial advantage at higher levels of development the limitations of small-scale farming were becoming increasingly to the fore. There comes a stage in agriculture's development process where land has to be consolidated and farm size has to increase so as to be able to take advantage of economies of scale.

### **Asian successes and Latin American failings**

The spectacular and unexpected success of the Asian miracle countries has left a deep imprint on scholars and policy-makers. It has irked in particular Latin Americans. After all, Latin America had achieved independence a century or century-and-a-half before countries such as South Korea and Taiwan, although the latter had a much briefer colonial experience as compared to Latin America. More significantly, many Latin American countries had, by the time South Korea and Taiwan gained independence after the Second World War, a far higher standard of living and level of industrialization, urbanization, education and health. But in the space of a few decades the picture had changed dramatically. While the Latin American NICs had achieved relatively high rates of economic growth in the postwar period this changed drastically with the debt crisis. By the 1980s, South Korea and Taiwan had overtaken even the more developed countries of Latin America such as Argentina, Uruguay and Chile.<sup>28</sup> The success of the Asian countries, while pointing out the possibilities for rapid and sustained growth, also revealed the limitations of the Latin American development model and exacerbated the sense of frustration which was already felt by Latin American scholars and policy-makers well before the Asian success of the NICs.<sup>29</sup>

The beginnings of the main divergence in economic performance between Latin America and the East Asian NICs can be dated to the oil crisis of the mid-1970s, but the watershed was marked by the debt crisis of the 1980s. The vast foreign exchange surpluses of the oil-exporting countries due to the tripling of the oil price in 1973 meant that borrowing became cheap and Latin American countries became heavily indebted. However, the fall in raw material prices in the late 1970s and early 1980s, at the same time as interest rates rose sharply, resulted in the debt crisis as countries were unable to repay their debts. This led to the so-called "lost decade" of the 1980s as the Latin American economies failed to grow during this period. Africa was also much affected by the debt crisis. The East Asian NICs, and particularly South Korea and Taiwan, were able to ride the storm as they judiciously had relied on their own savings and foreign exchange resources rather than engaging in Latin America's "dance of the millions." Furthermore, Latin America had squandered much of these millions (or rather billions) of dollars it had borrowed as a considerable part of it went to finance imports of consumer goods for the upper-income groups. In short, while the East Asian NICs continued to surge ahead in the 1980s, the Latin American NICs experienced an absolute as well as a relative decline.<sup>30</sup>

In this section I am seeking to account for the different development trajectories and performances of the selected Asian cases and Latin America, particularly regarding the role of agriculture. I am less concerned with deriving policy conclusions from the comparative analysis as that is fraught with pitfalls, especially in view of the different historical contexts and as there is no single path to development. In many ways South Korea and Taiwan together are a special case and their success cannot be easily replicated, if at all. But this does not mean that lessons cannot be learned and that these might not have policy relevance.<sup>31</sup> My aim though is limited to account for some key factors that might enlighten our understanding of this spectacular turn around. There are three main issues that I consider particularly relevant in explaining the differences and which merit further reflection within a comparative perspective: first, the nature and policy-making capability of the state; second, the agrarian land tenure, class configuration and agrarian policy pursued; and third, the particular interactions between the agricultural and industrial sectors in the process of development as well as the state's industrial strategy.

#### *State capacity and public policy*

In South Korea and Taiwan the governments played a far more pivotal role in transforming agriculture and developing the industrial sector than in Latin America. While in several Latin American countries developmentalist states emerged which promoted industrialization, they had far less control over the industrial bourgeoisie, the financial sector and the economy in general. Furthermore, the states in South Korea and Taiwan had

a considerably stronger grip over the agricultural sector. This difference is explained by the much greater degree of autonomy from society of the South Korean and Taiwanese states. As Japan had ruled both countries for over half a century the local indigenous population, except the local elite, had little, if any, influence upon the authoritarian colonial state. After the Second World War, when they achieved independence after the defeat of the Japanese by the Allied Forces, the new regime was also autocratic. Only in the last few decades has there been a transition toward democratic forms of governance. The South Korean and Taiwanese states had substantial social, political and even cultural control over their populations and were also able to mobilize their energies for hard work and productive purposes to an extent inconceivable in Latin America. South Korea's and Taiwan's bureaucracy was also more disciplined and more committed to the ideology, goals and activities of the state than was the case in Latin America. These factors, which gave South Korea and Taiwan a greater state capacity, facilitated the implementation of the governments' developmentalist agendas.

This relative autonomy of the state was justified by the rulers as being necessary to prevent a communist takeover as well as for reasons of national development. This was not challenged by the US government, which not only accepted the authoritarian governance but also provided major economic and military aid to South Korea and Taiwan in the power politics of the Cold War era. This gave both countries a key geopolitical significance that the rulers cleverly exploited internally as well as in their external relations, such as gaining special access to the markets of rich countries, to foreign aid, and political/military support. Another factor to consider in the success achieved by South Korea and Taiwan is the superior competence of their state bureaucracies as compared to that of many Latin American countries, which are hampered by patronage, clientelism and inertia.

Before the world crisis of the 1930s the Latin American state, with few exceptions, was of an oligarchical kind, being controlled by the landed oligarchy which ruled in coalition with merchant and mining interests. It was only after the 1930s when governments shifted from a primary-product and export-oriented economic policy to an inward-directed-industrialization development strategy that power shifted toward the industrial bourgeoisie. This tended to encourage democratic forms of governance as, with the growth of the industrial working class and the middle sectors, the industrial bourgeoisie saw it in their interest to gain the support of these new social actors. But landlords still exercised a major influence on the state and were able to block any attempts of reform in the countryside. While the Latin American state during the ISI period from the 1930s, and in the Central American context from the 1950s, was typically a developmentalist state promoting industrialization several decades before that in South Korea and Taiwan, thus giving it a head start over them, it was also a populist

and largely democratic state. This limited the room for maneuver of the Latin American governments. They were under the twin pressures from the dominant classes and the lower classes who, although less powerful, formed the majority of the electorate. When in some circumstances enlightened policy-makers and technocrats realized that certain reforms in the countryside and changes in industrial policy were required to further the development process, they were generally thwarted in their efforts until a crisis forced changes in policy. Usually these changes came too late, as the moment for reform had gone, and/or were too little, as the new policy failed to bite due to the obstruction of those whose interests were jeopardized or challenged.

It should be clear that I am not arguing that the political systems in South Korea and Taiwan were superior to Latin America's. Far from it, as there is little to commend a system that fiercely represses any attempt at autonomous organization by the industrial working class and the peasantry. All I am saying is that the Latin American state had to handle a more complex and conflictual situation. The more repressive character of the South Korean and Taiwanese states compared to that of several Latin American countries does not mean that in the former case the state had less legitimacy as compared to the latter. The regimes in South Korea and Taiwan realized that to gain legitimacy they had to share the fruits of growth more widely than hitherto and thus adopted a more welfare-oriented and distributivist policy through investments in education, housing and health, as well as promoting small and medium-sized enterprises. Almost at the birth of the new states, the regimes had gained important legitimacy in the countryside through the land reform program.<sup>32</sup> During the ISI era the populist states in Latin America embarked on similar welfare measures but at a reduced scale. Furthermore, they were unable to sustain these populist policies as growth faltered. Many of the social welfare gains were sacrificed with the painful implementation of the structural adjustment programs and the conversion to free-market neoliberal policies during the 1980s and early 1990s.

A crucial factor for explaining the different development performance of South Korea and Taiwan is what Chan refers to as "statecraft" or the ability of the state to design and implement strategies and public policies conducive to development.<sup>33</sup> Throughout this chapter I have stressed various dimensions of this statecraft and some will be further discussed below. I have put particular emphasis on the state's ability to transform the land tenure system and the agrarian social relations, as well as on its ability to encourage entrepreneurship and a positive interaction between agriculture and industry which is able to respond in a flexible manner to changing internal and external circumstances. Latin America's deficient statecraft as compared to South Korea's and Taiwan's is partly due to its more polarized and entrenched class structure and, paradoxically, its superior natural resource endowment.

Since colonial times the natural resource abundance in Latin America had created an exploitative and rentier mentality, at first with the extraction of gold and silver and later with agricultural resources. Such a rentier mentality and behavior also spread later to industry during the ISI period, when industrialists were demanding from the state ever-increasing protectionism and subsidies. Due to their far more limited natural resource base, South Korea and Taiwan had to rely more on their human resources and on their statecraft to create factor endowments and comparative advantages in world markets if they were to develop. Thus these East Asian countries succeeded in graduating from a rent-seeking society during the ISI phase in the 1950s to an efficiency-seeking society during the export-oriented industrialization (EOI) phase thereafter.<sup>34</sup> While Latin America remained locked into a natural resource "vent for surplus," these East Asian economies went first into a labor-based "vent for surplus" by promoting labor-intensive industrial exports but soon shifted to skill-intensive industrial exports and more generally to a value-added development strategy driven by technological progress.<sup>35</sup> In agriculture, land was cultivated more intensively (such as with double cropping) and there was a shift to higher value-added crops such as vegetables and fruits. Latin America continued to rely more on land-intensive traditional crops. As for industrial development, more will be said later on.

It was superior statecraft that South Korea and Taiwan had to rely on for their development process if they were to overcome their natural resource constraint. Paradoxically in the Latin American case this natural resource abundance can be a disadvantage as it creates wealth which is either appropriated by foreigners or strengthens the power of the dominant class which controls these natural resources. It might also paradoxically lead to the development of a sizable state apparatus financed from taxing the exploitation of the natural resources, but limit its statecraft as the dominant classes use the resources of state for their own rentier interest rather than for the wider developmental interests of the majority of the population. The East Asian state was able to restrict the unproductive use of capital, while in Latin America the rentier mentality thrived on a staples export base and the state was unable to limit the unproductive sources of wealth accumulation. Thus the key developmental issue is not "getting prices right" as argued by the neoliberal policy-makers but to get "statecraft" right.<sup>36</sup>

#### ***Landlords, peasants and agrarian reform policy***

Although landlords in South Korea and Taiwan were more actively contributing to agriculture's modernization than in Latin America, they practically vanished after land reform while they retained a significant presence in Latin America. Agriculture's modernization in South Korea and Taiwan had already started with Japan's colonial policy, which, with the support of landlords, forcefully promoted new crops and modern technologies

among the cultivators, thereby achieving considerable increases in yields. Landlords used a significant proportion of their rental incomes for investment purposes and for expanding production. Thus fertilizers and chemical inputs were introduced on a wide scale almost half a century earlier in South Korea and Taiwan than in Latin America. More significantly, landlords in South Korea and Taiwan were not in a position to obstruct the massive land reform process, for reasons mentioned earlier. Meanwhile in Latin America landlords were able to resist land reforms until the 1960s (except in Mexico and Bolivia which had already experienced substantial land reform by then). In some Latin American countries no significant land reforms have been implemented even now, the most glaring case being Brazil. Furthermore, in those countries where land reforms were implemented the landlord class succeeded in limiting its impact and in some cases even managed to reverse the process, as in Guatemala in the 1950s and to some extent in Chile and Nicaragua in the 1970s and 1990s, respectively.

While the power of landlords was decisively broken in South Korea and Taiwan, this was not the case in Latin America (with the exception of Cuba). Despite the demise of landlordism in South Korea and Taiwan, landlords were successful, thanks to efforts by the state, in becoming capitalist entrepreneurs. They ceased being landlords and used their compensation payments to make investments in industry, finance and commerce. Landlords were thus successfully integrated into the new development model, thereby blunting their resistance to agrarian reform. Some Latin American governments, notably in Peru and Chile, also tried to limit landlord resistance to agrarian reform by trying to convert them into industrial or other types of entrepreneurs by using the compensation payments for their expropriated land to invest in new ventures. However, compensation funds were limited and lost much of their value due to inflation. Landlords were profoundly distrustful of the governments that had expropriated their estates. They thus remained hostile and continued to fiercely resist any agrarian reform, obstruct its implementation and even seek its reversal. Such hostility and conflict in the Latin American countryside was not conducive to investment and modernization.

Conflicts between landlords and peasants were more acute in Latin America than in Korea and Taiwan. Establishment and expansion of the large landed estates in Latin America was based on the usurpation of indigenous lands by force and later by economic means, often of a fraudulent kind and where political intimidation was sometimes also present. There is also a much sharper ethnic divide in Latin America. Landlords invariably were the direct descendants of the Spanish and Portuguese conquerors or of foreign, largely European, immigrants. Meanwhile the peasantry was mainly indigenous. Thus the land conflict often acquired an ethnic dimension, giving a special edge to the class conflict between landlords and peasants in the countryside. While Korea and Taiwan had experienced Japanese colonialism this was more short-lived, half a century compared

to Latin America's three centuries of colonialism, and most Japanese landlords returned to Japan after the war. Thus rural society in Korea and Taiwan was more homogenous ethnically and culturally, which greatly facilitated the implementation of land reform and the drive to modernization. The South Korea and Taiwan governments were also far more effective in organizing and mobilizing the peasantry for productive purposes as well as controlling it politically, which facilitated the widespread adoption of innovations and limited disruptions.<sup>37</sup> This does not mean that land agitation, strikes and revolts have been absent in South Korea and Taiwan, but it does indicate that these East Asian governments were far more able to deal with the conflicts and demands of the peasantry in a productive manner.

While Latin America can point to some agrarian reforms, on the whole the record is poor and much is left unfinished. South Korea's and Taiwan's land reforms can be hailed as a success. Proportionally more land was expropriated, benefiting more peasants as compared to Latin America. Land reform's impact on growth, employment, income distribution, social integration and political stability was also far more positive. One key reason for the success is South Korea's and Taiwan's greater state autonomy and capacity. Another reason can be found in the different agrarian structure between the two regions before land reform, which greatly influenced post-land reform structure and performance.<sup>38</sup>

South Korea's and Taiwan's (as also Japan's) agrarian structure has been characterized as unimodal, compared to Latin America's bimodal structure based on a dualistic size of farm units. According to Johnston and Kilby, a unimodal pattern of agricultural development is far more advantageous for a country's development than a bimodal pattern.<sup>39</sup> Already before the land reform peasants owned a greater proportion of the country's agricultural land in South Korea and Taiwan as compared to Latin America, and after land reform became owners of almost all of it as tenants became landowners. In South Korea and Taiwan farming was also in the hands of the peasant households as landlords were not directly involved in cultivation. Tenants were highly integrated into the market due to the high level of commercialization, especially after the transition in the 1920s from extensive to intensive farming. After land reform tenants gained ownership but the operational size of holdings changed little. Thus the distribution of lands by tenure status was transformed but not the distribution of operational holdings. In South Korea and Taiwan peasants were in control of production and had a long experience as agriculturalists, unlike in Latin America where the process of depeasantization was well advanced. By the time of the agrarian reform in Latin America tenancy was limited as landlords, through their administrative staff, managed directly most of an estate's land employing waged labor. The permanent wage laborers received a money wage as well as access to housing and a small land allotment on the estate as part of their remuneration. But the land

benefits were increasingly curtailed and the employment of seasonal waged labor, which did not receive any productive fringe benefits, became more common. Thus large-scale farming dominated in Latin America and the rural labor force had a far higher proletarian character than in South Korea and Taiwan. It is striking to note that, despite South Korea's and Taiwan's extremely high population density compared to Latin America, landlessness was practically nonexistent.

While small-scale and peasant farming dominated before and after agrarian reform in South Korea and Taiwan, large-scale and landlord farming dominated in Latin America. After agrarian reform landlord farming began to lose its dominance in Latin America due to expropriation and as some landlords converted to capitalist farming. But large-scale farming prevailed as the new land reform enterprises were transformed into cooperatives or state farms. It was only after the break-up of the reformed sector with the parcellization process, as part of either counter-reforms or the shift to neoliberal policies, that peasant household farming became more widespread. Nevertheless, capitalist farming, though generally smaller in size than previous estate farming, dominates Latin American agriculture in terms of land, capital, markets and technology. Thus, the old latifundist dominated dualism has become a new capitalist dualism as peasant farming, despite some gains resulting from land reform and parcellization, continues to be marginalized and is losing ground to capitalist farming in the increasingly competitive and globalized character of agriculture. Today's Latin American dualist agrarian structure is more complex and heterogeneous than in the pre-land reform period, but peasant farming is under more stress than in the past. Most of Latin America's shrinking rural population is today of a proletarian or semiproletarian nature.<sup>40</sup>

In short, the unimodal type of agrarian structure and the highly egalitarian agrarian system after land reform in South Korea and Taiwan greatly facilitated the diffusion of the benefits of land reform and agricultural modernization to most of the farming community.<sup>41</sup> Thus their rural economy and society are far more inclusive and egalitarian than Latin America's and their rural development is broad-based while Latin America's continues to be exclusionary. While South Korea and Taiwan have largely resolved their agrarian problem this great task is still awaiting Latin America.

#### ***Development strategy and agriculture-industry relations***

As mentioned earlier, most development specialists recognize that in the initial stages of industrialization it is necessary to secure the transfer of an agricultural surplus to industry to support the process of industrial capital accumulation. As I will argue below, achieving a successful process of industrialization and economic development is not just a matter of transferring resources from agriculture to industry. A judicious development strategy entails the pursuit of appropriate policies which generate a dynamic

interaction between the two sectors.<sup>42</sup> According to a major study of 18 countries from Africa, Asia and Latin America, the total income transfer out of agriculture averaged 46 percent of agricultural gross domestic product per year over a period of two and half decades between 1960–85.<sup>43</sup> While most authors had previously focused mainly on the more visible direct transfers, Schiff and Valdés found that indirect transfers were far more important in accounting for the transfer of resources out of agriculture.<sup>44</sup> The direct transfers arise from agricultural sectoral policies such as agricultural price controls, export taxes or quotas and import subsidies or taxes. They directly affect the price level of agricultural commodities relative to the price level of the nonagricultural commodities; that is, the domestic terms of trade. Meanwhile the indirect transfers are less visible as they arise from outside agriculture, such as through macroeconomic policies and industrial protectionism. These indirect policies have resulted in a real exchange rate overvaluation, thereby depressing agriculture's terms of trade.

In the view of Valdés and Schiff, this direct and indirect bias against agriculture constitutes "the plundering of agriculture."<sup>45</sup> While this may well be the case, the authors do not consider sufficiently the inflow of resources into agriculture and fail to discuss the impact that this transfer of an agricultural surplus has on industrial growth and thus on a country's overall economic development. It is this dynamic interaction I will explore in this section. Furthermore, neoliberal authors like Krueger, Valdés and Schiff fail to remind readers of the landlords' plundering during the pre-ISI and agricultural-export-oriented period or the generous subsidies they received even during the subsequent ISI period. For example, in Argentina during the 1920s the tax on land contributed only 1 percent of total state's revenue and export taxes were also insignificant.<sup>46</sup> However, after Perón took power in 1946 he imposed severe controls on food prices as well as levying higher agricultural export taxes, thereby channeling major resources from agriculture in support of a major ISI drive. His measures were far too drastic and did have a very negative impact on agricultural production, which took almost two decades to recover.<sup>47</sup> In Brazil the state relied heavily on taxation of agricultural exports, such as coffee, which helped to finance São Paulo's industrial infrastructure. But agriculture's income tax contributed only around 1 percent of the state's total revenue from income tax, while receiving about 10 percent of the total income tax revenue in subsidies for credit and the purchase of fertilizers and agricultural machinery during the 1970s and early 1980s.<sup>48</sup>

While for Valdés and Schiff "plundering of agriculture" has a negative effect on economic growth, for Teranishi the key factor in accounting for a country's superior economic performance has more to do with the net flow of resources into agriculture, especially in support of rural infrastructure such as transport and irrigation as well as extension services.<sup>49</sup> According to Teranishi, the data arising from the World Bank study;

which Schiff and Valdés have used extensively, do not show any significant difference in the degree of transfer of resources from agriculture across the regions. However, he finds that there are major cross-regional differences in infrastructural investment in agriculture, and that countries that undertake larger investments of this kind have a superior economic performance.

In my view, all these analyses are limited as they fail to consider other significant factors such as the land tenure system, class relations and the dynamic interaction between these various factors. In what follows I will analyze some elements of the interaction between agriculture and industry which in my assessment have an important bearing for explaining the superior economic performance of South Korea and Taiwan compared to that of Latin America.

In the process of surplus creation, extraction and transfer from agriculture to industry the state played a pivotal role in South Korea and Taiwan. It created both the conditions for productivity growth in agriculture as well as securing the transfer of much of this growth to the industrial sector via such mechanisms as taxation and manipulation of the terms of trade in favor of industry. The state, as by now is well known, played an even more important role in the process of industrialization itself. The state had an absolute grip over the agricultural sector, especially as the landlord class had lost their land and political power. Although peasant farming was extended even further after land reform the state had a key control over the peasantry through a variety of economic, political and institutional mechanisms. The state changed class relations and established the economic and political conditions favorable to rapid industrialization. As landlords no longer had political power the South Korean and Taiwanese governments could afford to ignore the demands of agriculturalists. Urban labor did not fare much better under conditions of political unfreedom which effectively repressed any form of industrial protest although their economic conditions were better than those of the peasantry.

Meanwhile in Latin America even in the period of ISI, when governments were most favorably inclined toward industrialization, the state had to make economic concessions to landlords, providing them with generous subsidies and other economic benefits. Thus the Latin American states were unable to extract proportionally such a high surplus from agriculture as compared to South Korea and Taiwan. Furthermore, the populist regimes in Latin America, while mainly favoring the industrialist, were unable to dictate industrial policy to them as in South Korea and Taiwan. They thus gave in to their demands for increasing protectionism and economic benefits. Furthermore, the populist regimes could not ignore the demands of the expanding industrial working class which gained certain rights as well as access to some of the benefits of the welfare state. The increasing inefficiency of the industrial sector and its declining dynamism meant that the situation became increasingly untenable for the Latin America states. The crisis of ISI and the populist state paved the way for neoliberal

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economic policy in Latin America, but by then Latin America had already fallen economically well behind the Asian miracle countries. But so far, barring notable exceptions like Chile, neoliberalism has also failed to deliver in Latin America as the gap with South Korea and Taiwan continues to widen.

While in South Korea and Taiwan the land reform allowed the state to extract an even higher economic surplus than before, the opposite was the case for Latin America where land reform became an economic burden. On the one hand, as peasants became better organized in the wake of the land reform they placed greater economic demands by requesting to be included in the provisions of the welfare state, better access to schooling, public health, housing, and so on. On the other hand, the reformed sector failed to deliver the expected economic gains due to problems of mismanagement, lack of labor discipline, divisions among members, and other problems associated with producer cooperatives and state farms. Despite the collectivist character of many Latin American land reforms the governments were unable to control events in the countryside. Meanwhile in South Korea and Taiwan the spread of peasant farming resulting from land reform strengthened state control over agriculture. The Latin American states' close involvement in the management and economic affairs of the reformed sector in the end weakened it, while South Korea's and Taiwan's state involvement via the market mechanism and economic policy yielded far better results.

By controlling price and trade policy and by taxation, among other measures, governments are able to extract a large surplus from agriculture and use it to finance industrialization. In many countries agriculture has been an essential source of accumulation for industry. In some countries the state played a key role, while in others this was less so as the transfers were mediated by the market or were voluntary as when, for example, landlords decided to invest the surplus they extracted from the peasantry and rural workers in industry, in some instances becoming industrialist themselves. It is generally acknowledged by most scholars that in the first stages of industrialization agriculture has made an important contribution in those countries that have successfully developed. The situation might differ in countries that have vast mineral wealth, receive major economic aid over a sustained period of time or which are service type economies relying on tourism and off-shore finance to generate their sources for industrialization and/or economic growth. But such cases tend to be rare or are more common in small (often island) economies where agriculture does not offer much of a future.

What is remarkable about the South Korean and Taiwanese cases is that the governments managed not only to squeeze agriculture but did so while at the same time ensuring agriculture's sustained growth and thus the production of a large economic surplus. This allowed industry's spectacular expansion, which in its initial stages was financed through the

peasant squeeze. Usually relations between agriculture and industry are viewed as conflictual and in opposition to each other. A common view is that a gain in one sector is achieved at the expense of the other. Nevertheless there are win-win situations as the experience of South Korea and Taiwan testifies. This was generally not the case in Latin America as the squeeze was often less effective and often self-defeating. During the ISI period landlords were able to limit the transfer of surplus out of agriculture at least as far as their interests were concerned, while ensuring that the squeeze was born by the peasantry and rural workers (which due to their poverty could not be squeezed that much). A squeeze, which also affected capitalist farmers, was often counterproductive as this loss of incentive resulted in a fall in agricultural output. Thus too high a squeeze might deny agriculture the resources to create a surplus, and so in the end there is nothing left to squeeze.

The South Korean and Taiwanese policy-makers were aware that to resolve the dilemma and achieve a win-win situation it was necessary to ensure sustained increases in efficiency in agriculture as well as in industry. They thus had a dynamic view of the interaction between agriculture and industry in which the institutional setup and technological innovation were central. The governments thus ensured that the conditions were conducive to the adoption of new technologies and stimulated shifts in production patterns to higher-value crops over the whole of the farming community.<sup>50</sup> As for industrialization, they tried to ensure that the resources transferred to industry were invested in industries that had great potential for growth and for succeeding in export markets. In contrast to Latin America where protectionism was similar across the board, in South Korea and Taiwan it was highly discriminatory. These Asian governments also encouraged the creation of industries that would allow improvements in agriculture, such as chemical fertilizers and farm machinery and equipment. Furthermore, agriculture-supporting industries received an even higher allocation of foreign aid funds than other types of industry.<sup>51</sup> Much of the industrialization in Taiwan was also rural-based, thereby being more attuned to the needs of the agricultural sector. Once a successful industry is established the need to extract a surplus from agriculture diminishes and the flow of resources might even revert, as has been the case in postwar Japan and in recent decades in South Korea and Taiwan, as well as comparative advantages shifted from agriculture to industry.<sup>52</sup>

The Latin American policy-makers generally failed to create such a win-win situation. I have already referred to the difficulties and constraints they faced when attempting to reform the land tenure system and modernize agriculture. But they also failed to discipline or control industrial capitalists and, instead of ensuring their increased competitiveness, they had to yield to pressures for increased protectionism. The structuralist school of development thinkers who had advocated ISI clearly did not favor

the deepening of protectionism and the drift toward an increasingly inefficient and wasteful industrial structure. Furthermore, Prebisch, a key structuralist figure, was one of the first and foremost champions of industrial exports for Latin America (and other developing countries) already in the late 1950s.<sup>53</sup> But governments that tried to promote industrial exports faced internal difficulties as protectionism was an easier option for industrialists who were uncompetitive in the world market, as well as encountering the protectionism of the rich industrial countries in those branches of industry that were competitive internationally, such as the Brazilian shoe industry. While South Korea and Taiwan had managed to raise the share of manufacturing exports within total exports to about a staggering 75 percent in 1970, the figures for Brazil and Chile were only 10 percent and 4 percent, respectively.<sup>54</sup> By failing to break through into industrial export markets Latin America's economic growth continued to be hampered by the foreign exchange constraint which limited the possibilities to import capital goods and thus raise the country's investment rate.<sup>55</sup> The key obstacle to Latin America's industrialization was less the lack of capital, more the lack of foreign exchange. Thus the neglect of agricultural exports together with the failure to shift at an earlier stage to an export-oriented industrialization (EOI) strategy are some of the key reasons why Latin America fell behind the East Asian NICs.

The fact that policy-makers in South Korea and Taiwan decided early on to become competitive in international markets had the great advantage that it created an industrial structure that took advantage of their cheap labor supply. This was a major factor in their comparative advantage relative to the industrial countries where labor was expensive and at the time in short supply. The transformations in South Korea's and Taiwan's agriculture ensured that surplus labor was released to the industrial sector thereby keeping wages low, while at the same time ensuring that agricultural production continued to grow so as to ensure an adequate supply of food to the industrial workers. This adequate supply of food meant that food continued to be cheap and thus an upward pressure on industrial wages was avoided. This in turn allowed industrialists to reap high profits, remain competitive and use these profits to finance industrial investment and thus sustain a high rate of industrial growth. Furthermore, the high rate of labor absorption of South Korea's and Taiwan's industrial sector meant that at a certain point the labor surplus was being reduced or even eliminated and thus wages began to rise. Thus, after some time, growth did trickle down thereby further improving equity.<sup>56</sup>

The foundations for a more equitable income distribution were laid by the agrarian reform. Income inequalities in Taiwan, and to a lesser extent in South Korea, are probably among the lowest in the world, and this has not only had positive effects on social and political stability but provided a solid foundation for their industrialization. This relatively equitable income distribution widened the size of the domestic market for industrial

commodities, which is particularly important in the initial stages of an industrialization process. Meanwhile in Latin America, the limited extent of agrarian reform, coupled with the fact that it was implemented several decades after industrialization had started, denied the region this potential widening of the internal market. It also created a distorted and inefficient industrial structure which was limited to satisfy the particular demand profile of the higher-income groups.

In Latin America, a large proportion of the surplus rural population which migrated to the urban centers were unable to find industrial employment as Latin America's industrial structure was inappropriate: it produced commodities largely catering for the high-income groups, which required capital-intensive and foreign-exchange-intensive technologies. South Korea's and Taiwan's industrial structures were geared to the production of mass consumer goods, where there are greater possibilities for using labor-intensive types of technology. Thus Latin America's urban surplus population continued to expand, preventing any significant trickle-down effect from economic growth and perpetuating, if not exacerbating, income inequalities.

Similarly, increases in agricultural productivity in South Korea and Taiwan were achieved with only limited capital requirements, such as greater use of fertilizers and improved seeds. Meanwhile, changes in agricultural productivity in Latin America were more demanding on the scarce capital resources. They often also required more foreign exchange because it was mainly the large-scale commercial farms that invested in technological innovations requiring the importation of tractors, harvest-combines and other machinery. Thus Latin America's bimodal agrarian structure and the state's policy bias toward large-scale farming set up a partially inappropriate pattern of technological change in agriculture, one that was not widely spread among farmers as it was largely confined to capitalist farmers. Governments also tended to allocate much of their (rather limited) rural expenditures directly to landlords. By contrast, South Korea and Taiwan disbursed rural expenditure in a far more egalitarian manner conducive to the widespread adoption of new technologies and distribution of the benefits of this expenditure; it was used to finance rural infrastructure, such as irrigation and roads, to which many more people have access.<sup>57</sup>

Latin America fell behind the East Asian NICs not only because it neglected agriculture but also because it failed to shift in time from an ISI to an EOI development strategy. After the easy or primary phase of ISI based on the consumer-goods industry during the 1960s, some Latin American countries managed to raise their savings rate due to the higher capital accumulation requirements for financing investment in intermediate-goods and capital-goods industrial sectors. A similar process happened in South Korea and Taiwan, with the difference that both those countries were able

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to continue with this shift to a more capital-intensive, labor-skill-intensive, foreign-exchange-intensive and large-scale industrialization process while Latin America was unable to do so. Latin America, instead of using the abundance of petro-dollars available since 1973 in international financial markets for shifting decisively to an EOI strategy (only Brazil and Mexico carried out some half-hearted attempts), engaged in a consumption binge and capital flight and became further entrenched in the ISI model. The chickens came home to roost with the 1980s debt crisis, which has been appropriately named the "lost decade" for development. Meanwhile the East Asian countries were not only able to continue to mobilize domestic savings (and South Korea also began to borrow more capital from abroad), they were also able to overcome the twin problems that had blocked Latin America's industrialization; i.e. the foreign exchange and market constraints.

By moving during the consumer-goods industrial stage into exports, the East Asian countries were able to earn the additional foreign exchange necessary to finance imports of intermediate- and capital-goods required for the next stage in the industrialization process. They also gained valuable experience in international markets; and, by being exposed to a greater extent than the Latin American economies to world competition, they had a powerful incentive to become more efficient and hence competitive. Having shifted also to an EOI strategy they were able to access a much wider market, thereby being able to reap the benefits of economies of scale which are particularly important in the manufacturing of products such as cars, ships, steel, chemicals and electronics. The comprehensive and inclusionary educational systems of South Korea and Taiwan ensured the necessary supply of skilled labor required for some of these industries, whose wages were still relatively low.

In my view, even before the 1980s debt crisis, which had such a savage impact on the Latin American economies, Latin America had fallen behind the East Asia NICs. It should not be forgotten that Latin America started to industrialize over half a century before the East Asian NICs. Latin America's biggest failure was not to have shifted as quickly and swiftly as South Korea and Taiwan from primary ISI, to secondary ISI, to primary EOI and secondary EOI. Most Latin American countries have even today not yet reached the secondary stage that includes higher value-added and skill-intensive industries. Latin America should have shifted to an EOI strategy already in the 1950s even before the East Asian NICs. It missed an historic opportunity to do so which South Korea and Taiwan exploited to the full - whether by chance or design is still debatable. However, events unfolded as they did in Latin America and perhaps the historic option was not available to the region owing to the various structural constraints, among them the unresolved agrarian question, that I have discussed in this chapter.

### **Conclusion**

Agrarian and industrial structure, the nature of technological change, the pattern of structural change and intersectoral resource flows are major determinants of a country's rate of growth. Latin America failed to live up to its potential as within a few decades it lost its historical advantage over the East Asian NICs, having started its industrialization almost half a century earlier. Meanwhile, due to the different policy choices taken by South Korea and Taiwan, they were able to leap forward and overtake Latin America economically.

Agriculture can and needs to make a contribution to industrial development, especially in the initial phase. Industrialization, in turn, can stimulate agriculture by providing key productivity enhancing inputs for it as well as a market for its output. But agriculture should not be squeezed to such an extent that farmers no longer have the resources or the incentives to invest, raise yields and expand production. The advantage of peasant farming, as shown in South Korea and Taiwan, is that it has a great capacity for self-exploitation. Peasant farmers require few economic incentives for expanding production while landlords, especially in Latin America, require major and very costly incentives for achieving similar results. Despite the heavy net outflow of resources from agriculture in Taiwan and South Korea, government policy left sufficient economic incentives for peasant farmers to raise agricultural productivity and output significantly. At the same time it is important for the achievement of sustained growth that the resources transferred from agriculture to industry be used effectively in developing an appropriate industrial structure. Industrial productivity needs to be increased to finance capital accumulation and rising wages as the labor surplus provided by agriculture is exhausted.

Therefore, the critical factor for securing continuous growth is the achievement of greater productivity in resource use throughout the economy rather than the transfer of resources from one sector to another. This does not mean that such transfers might not be important at certain stages of the development process or that they should always go in one direction. What is vital is that, whatever transfers are made in whatever direction, they should maximize productivity growth throughout the economy.

What are the root causes that explain the difference in performance between the Asian NICs and Latin America? In this chapter I have focused my analysis on three key factors although others may be identified as well. First, I stressed South Korea's and Taiwan's superior state capacity and policy performance. Second, I highlighted Latin America's failure to create an agrarian structure more conducive to growth with equity. Third, I emphasized South Korea's and Taiwan's greater ability to design an appropriate industrial policy as well as to bring about a more positive interaction between agriculture and industry. While Latin America got off

to an early start with industrialization it was unable to overcome quickly enough the limitations of ISI and shift to a more export-oriented and competitive industrial structure. While geopolitical factors were more favorable to South Korea and Taiwan, natural resource endowments were more favorable to Latin America. All the three factors I have identified are closely interconnected. South Korea's and Taiwan's good fortune was that they managed to develop the positive linkages between them while in Latin America these factors were often in conflict. While the Asian NICs succeeded in creating a virtuous and mutually reinforcing upwardly moving spiral between these factors, the Latin American countries failed to do so. The discussion on the development successes and failures of countries is far from closed and hopefully comparative studies will continue to enrich development theory and policy.

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