

**ASIA' S AND LATIN AMERICA' S DEVELOPMENT IN  
COMPARATIVE PERSPECTIVE:  
LANDLORDS, PEASANTS AND INDUSTRIALIZATION**

Cristobál Kay

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For further information contact:

ORPAS - **Institute of Social Studies** - P.O. Box 29776  
2502LT The Hague - The Netherlands - FAX: +31 70 4260799  
E-mail: **workingpapers@iss.nl**

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## **ABSTRACT**

Scholars and policy-makers have long debated over the causes of the spectacular economic success achieved by the East Asian newly industrializing countries (NICs) as well as over the lessons that other developing countries can learn from this development experience. Latin America started to industrialize many decades before the East Asian NICs and yet was quickly overtaken by them in the last few decades. This essay seeks to explore the agrarian roots which 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.

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## 1. INTRODUCTION

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 (Naya, Mark and Fuentes, 1989). While some authors have argued that there are no or few lessons to be learned as this success story cannot be generalized (Cline, 1982) 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 (Krueger, 1985; Balassa, 1988; Harberger, 1988). Thus countries which had pursued protectionism and import-substitution-industrialization (ISI) policies came in for heavy criticisms by the World Bank and advocates of neoliberal economic policies (Krueger, 1978; Balassa, 1982; Lal, 1983; Corbo *et al.*, 1985). This has generated much debate and the neoliberal interpretation of the NICs' economic success has been challenged and shown to be flawed (Toye, 1987; Luedde-Neurath, 1988; Bielefeld, 1988; Gereffi, 1989; Wade, 1990; Amsden, 1994).

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 (Wade, 1988; Gore, 1996). Even the World Bank (1993) has come to admit, though reluctantly, that the State was heavily involved in the NICs development process. 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 which had followed ISI policies in the postwar period was not the disaster story which it had been made out to be, and, on the contrary, was in some instances even more successful than the record of some countries which 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 (Kay and Gwynne, 2000). In the past few decades a second generation of NICs have emerged, particularly in Asia, such as Thailand, Malaysia, Indonesia, and China, which were specially keen to promote industrial exports. In Latin America countries which already had gone through an ISI process were now eager to move into industrial exports, especially Mexico and Brazil. Mexico even joined the North American Free Trade Association (NAFTA) in 1992 thereby integrating more closely its economy with that of the USA and Canada.

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 essay 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 which had only marginal land reforms from those which 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 inter-sectoral relationship between agriculture and industry as being of prime importance for explaining differences in the development performance between countries (Mellor, 1973; Bhaduri and Skarstein, 1997). 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 (Jones and Woolf, 1969; Johnston and Kilby, 1975). To achieve a successful industrialization a country will have to resolve the problems associated with the generation, transfer and use of an agricultural surplus (Mundle, 1985). This is particularly important in the initial stages of industrial development. A brief elucidation of the meaning of agricultural surplus might be in order. There are various meanings given to this term and various ways of measuring it which does not need to concern us unduly in a paper of this kind. 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 which 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. It is thus the amount of resources available to finance investment in the non-agricultural sector. This net agricultural surplus is particularly important during the initial stages of industrialization. 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, i.e. an industrial surplus helping to finance agriculture. For a detailed analysis of the various types and ways to define and calculate an agricultural surplus, see Morrison and Thorbecke (1990), and Winters *et al.* (1998).

There are various ways in which an agricultural surplus can be transferred to other economic sectors. An agricultural surplus can be transferred voluntarily or in a compulsory way. A voluntary transfer happens when, for example, farmers put their savings in a bank which then can lend the money to an industrialist, or when landlords invest directly in a non-agricultural venture such as an agro-industrial processing plant or a textile mill. A compulsory transfer occurs, when, for example, the government taxes farmers' incomes or introduces obligatory purchase of crops by a state marketing board at a price below the international border price. Voluntary transfers of the agricultural surplus can be considered as being market-induced as, for example, when the rate of return is considered higher by landlords outside agriculture they will invest

part or all of their profits or rent in the more profitable sector. Compulsory transfers are policy-induced as they arise through government intervention as, for example, taxation or an overvalued exchange rate (Teranishi, 1997).

A distinction can also be made between visible or 'on the table' and invisible or 'under the table' surplus transfer (Gereffi, 1990). A resource transfer is visible, as with direct taxation and government expenditure, or invisible, as with inflation, and the government's manipulation of the terms of trade between agricultural and industrial commodities by, for example, fixing agricultural prices below their free market value, or by manipulating the foreign exchange rate against agriculture. The differences between visible and invisible transfers are expressed clearly by Winters *et al.* (1998: 72) who also make a distinction between direct and indirect invisible transfers: 'Visible transfers include taxes, payments of rents to urban landlords, voluntary transfers from agricultural to non-agricultural households, savings of agriculture invested in non-agriculture, and net transfer of the balance of current accounts of agriculture. Invisible transfers occur through the terms of trade for agriculture. ... Direct invisible transfers can also occur through government intervention using price controls, export taxes, and import subsidies. Indirect invisible transfers occur through overvalued or appreciated real exchange rates which depress the domestic price of tradable agricultural goods.'

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. For example, if too high a surplus is extracted from agriculture to finance industry this can either depress living standards beyond reasonable levels, leading to social unrest in the countryside, or result in a fall in agricultural investment, leading to lower rates of agricultural growth and food shortages, or it can provoke both effects. The various devices of surplus transfer have different impacts on the behaviour of actors and thus create different economic, social and political outcomes. For example, it is likely that farmers will resist more fiercely price controls over foodstuffs than an overvalued exchange rate as the former is a more visible policy instrument as compared to the latter. Some ways of extracting a surplus from the agricultural sector might be easier for governments than others. In a country with a dispersed rural population and poor land property records it might be difficult to collect a land tax and an easier mechanism



might to impose a tax on agricultural exports. Also, some authors like Ranis (1990) consider that policies designed to achieve a sectoral resource transfer which are explicit, debated and negotiated are preferable to those which are implicit, clandestine and imposed. The relevance of these distinctions will emerge in the subsequent analysis of the particular case studies discussed in this essay.

The analysis should not be confined to the concept of agricultural surplus and the various transfer mechanisms. Within a more general and dynamic context of a development process it is also useful to discuss the various contributions that agriculture can make to economic growth and industrialization in particular. First, it can provide factors of production such as labour, capital and entrepreneurs (landlords or capitalist farmers who become industrialists, merchants, etc.). Second, it can also make a market contribution in the sense of, on the one hand, supplying agricultural commodities and, on the other hand, providing a domestic market for industrial commodities (Mellor, 1998). As for the first contribution regarding factors of production. An abundant supply of labour will help to keep wages from rising in the non-agricultural sectors while the provision of capital will help to finance industrial investment. By exporting some of its produce agriculture also contributes foreign exchange which is particularly important in countries with few mineral or other exports. This hard currency is necessary for obtaining the imports of machinery, tools, equipment, spare parts, fuels, raw materials, and other inputs required for establishing an industrial sector and keep it going. It is only when the industrial sector can launch itself in a major way into the export market and thereby generate its own foreign exchange that this particular role of agriculture becomes less important. Similarly with capital, once the industrial sector reaches a certain size it is able to finance its own investment needs without necessarily requiring capital from other sectors. As for the second contribution related to markets. An abundant supply of food will help to keep food prices low and thus diminish the pressure for higher wages by industrial workers thereby contribution to the profitability and capital accumulation of industry. While an abundant supply of agricultural raw materials, such as cotton and leather, will facilitate the development of industry, such as the textile and shoe industry respectively (Johnston and Mellor, 1961).

Analysts and policy makers have thus to focus on three major issues regarding the role of an agricultural surplus for industrialization. First, how best to increase

agricultural output and to ensure sufficient incentives for farmers to invest and innovate so as to generate a sufficiently large agricultural surplus. Second, how much surplus should be transferred out of agriculture and which are the most suitable mechanisms to extract this agricultural surplus to ensure 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 ensure that a virtuous cycle of economic growth and reinforcing interactions between agriculture and industry are created. 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 in section 2 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. In section 3 I analyze Latin America's highly uneven agrarian structure as well as the economic, social and political impact of the agrarian reforms which were implemented to a greater or lesser extent in various countries of the region. In section 4 I discuss South Korea's and Taiwan's agrarian transformation as well as the various contributions which agriculture, in particular the peasantry, made to their industrial miracle. I then, in section 5, which is perhaps the most interesting contribution of this essay, 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. In the final section I attempt to reach some general conclusions.

## **2. LATIN AMERICA'S INDUSTRIALIZATION WITHOUT AGRARIAN REFORM: CONTRAST WITH EAST ASIAN NICs**

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 ISI'. 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 essay 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 reform 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 above mentioned 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 essay.

A brief reference to Japan's experience needs to be made due to its influence on developments in South Korea and Taiwan, before and after they achieved independence, and because its land reform came after it had started its industrialization process, like in Latin America. Although Japan's postwar land reform of 1945 came after it had established a sizeable industrial sector the Meiji Restoration (1868-1912) had undertaken major agricultural reforms which had swept away the feudal restrictions

of the Tokugawa regime and enabled agriculture to make a major contribution to Japan's industrialization. The Meiji government was committed to modernize and industrialize Japan (Smith, 1959). It realized that to start an industrialization process it required to extract a surplus from agriculture. It proceeded by stimulating widespread technological innovations in agriculture without changing the property system or the operational size of holdings. The government promoted the establishment of research stations which developed improved rice varieties and other innovations which were diffused throughout the countryside by a dense network of extension services (Ruttan and Hayami, 1998). Also the Japanese landlord class was of an unusual nature as they were non-absentee being devoted to improvements, promoting societies for the spread of farm improvements such as new agricultural techniques, drainage and superior rice strains. They did not indulge in high living but invested part of their surplus outside agriculture helping to finance industrialization (Byres, 1986). Landlords became modernizers by spreading the innovations to their tenants as the Meiji's new land tax system encouraged them to do so. But they themselves did not become capitalist farmers as most of the cultivation remained in the hands of tenants. It was an inclusive agrarian modernization although within a socially hierarchical and politically authoritarian system (Dore, 1969).

Taiwan and Korea were Japanese colonies from the end of the 19th century until Japan's defeat in the Second World War. Following Japan's rice revolt in 1918 the Japanese government decided to transform Korea and Taiwan into a major rice supplier of Japan. It thus also got involved in raising rice yields of Korean and Taiwanese farmers and tenants to the extreme of even using the police to force modern techniques upon recalcitrant producers. Thus Japan, Taiwan and Korea had a powerful landlord class, with incentives to invest and modernize, and a peasantry among whom tenancy was rife paying very high rents to landlords who, in turn, had to pay a high land tax to the government. There was hardly any landlessness and wage labour and socio-economic differentiation among the peasantry was limited (Koo, 1970; Morrow & Sherper, 1970).

In the three Asian countries agriculture has been an essential source of accumulation in industry, and their States have been effectively, pervasively and ruthlessly central to the whole process. Taiwan's and South Korea's case differs from pre-1945 Japan as the landlord class was practically absent as most of them had been

expropriated by the time Taiwan and South Korea started to industrialize in the 1950s. Instead the landlords' place was been 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 (Dore, 1959).

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 favour 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, contrary to 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 labour thereby hoping that rural outmigration might decline. This was a desired goal as Latin American industrialization had been unable to provide sufficient employment and thus rural outmigration 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 labour 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. 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 become already firmly established after half a century or

longer since a significant process of industrialization has started. 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 which would be more labour 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 (Thorp, 1998).

Latin American agricultural exports flourished during the second half of the 19th century as the region became a major supplier of agricultural commodities to the expanding European market which was experiencing rapid industrialization and urbanization. Given the relative abundant land and labour resources of Latin America it was possible for the landlord class to respond to the increasing world demand for food and agricultural raw materials. Agricultural expansion was able to proceed by incorporating more land and employing more labour with relatively little capital requirements. There was little pressure on agriculture to introduce technological changes. This agricultural export-led growth was sufficient to induce the establishment of some industries largely linked to the processing of agricultural raw materials and some basic consumer goods industries. Thus the agricultural surplus, in some instances together with a mining surplus derived from the exploitation of minerals like tin, copper or oil, was able to finance the beginnings of the industrialization process.

When the land frontier began to reach its limit (in some countries already in the 1930s while in others in more recent decades) 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. Furthermore, the shift in many Latin American countries from a primary-product-exporting development process toward an inward-directed ISI strategy after the crisis of the 1930s, intensified the pressures on agriculture. 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 (IDB, 2000). In some Latin American countries a previous positive agricultural trade balance had even turned negative, i.e. agricultural imports began to exceed exports of agricultural commodities (ECLAC, 1999). The agricultural sector was no longer able to sustain the contribution which it had made in the past to the region's economic development and in some countries had even become a burden to the economy.

The increasing failings of agriculture prompted governments into action and they put in place a series of measures since the 1950s trying to encourage the 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 the delivery of technical assistance programmes. Consequently large commercial farmers began to shift to higher value added crops 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 during the 1960s and 1970s a shift towards the intensification of Latin American agriculture took place (Figueroa, 1993). This process of modernization can be characterized as the 'landlord road' to agrarian capitalism as landlords themselves transform their large landed estates into commercial profit-oriented capitalized farms. Also green revolution type technologies, involving improved seeds, were increasingly adopted. In the late 1960s only one-tenth of Latin America's wheat area was sown with high-yield varieties but by the late 1990s this had risen to nine-tenth. The spread of the green revolution, a technological package much favoured by the transnational agribusiness, also contributed to the increased use of fertilizers and pesticides (David, Dirven and Vogelgesang, 2000). This intensification of agriculture meant that growth in output was increasingly achieved by an increase in the productivity of the various factors of production. However up to the 1980s the expansion of agriculture's land area still accounted for sixty per cent of output growth; thereafter the intensive margin predominated as a source of agricultural growth (Ortega 1992: 123). However, this process of capitalization has proceeded unevenly in different Latin American countries

widening the heterogeneity between capitalist farmers and peasants (Kay, 1999; David, Morales and Rodrigues, 2000). In Brazil, agriculture continues to expand to an important -though lesser extent- extent, via the extensive margin due to the colonization of the Amazonian frontier. Furthermore, within agriculture capitalization has been largely confined to the commercial farm sector which has received the lions share of the vast amounts of highly subsidized state credit, leaving peasant agriculture without the means to modernize (Helfand, 1999).

It is during the stage of ISI that the shortcomings of agriculture became manifest as agricultural production was unable to keep pace with the increasing requirements of industry for cheap food and foreign exchange. While the pressure on agriculture intensified at the same time government policies increasingly favoured industry at the expense of agriculture thereby denying agriculture sufficient resources for its modernization. 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 (CIDA, 1966-70) which showed the inefficiencies of the then prevailing agrarian system which in its basic structure had remained the same since the colonial period (Chonchol, 1994). Large scale agriculture and/or cattle ranching undertaken in plantations, *latifundios*, *haciendas* or *estancias* had even consolidated its position further during the export-growth phase from the 1850s to the 1930s.

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 its poverty nor the domination of landlords. Peasant discontent and protest was becoming more widespread and intense. Political parties of the centre and the left became more willing to channel the demands of peasants and therefore included the agrarian reform issue in their political programmes. While rural unionization, better wages and working conditions had already been part and parcel of some of these programmes but 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 onto the political agenda (Thiesenhusen, 1989).



### 3. LATIN AMERICA'S AGRARIAN STRUCTURE AND LAND REFORM

Latin America had and in many countries, despite land reforms, continues to have the most polarized agrarian structure in the world. At one extreme were the *minifundistas* who own *minifundios* (very small landholdings) and, at the other were the *latifundistas* who own *latifundios* (very large landholdings) in the form of plantations, *haciendas* and *estancias*. By 1960 *latifundios* constituted roughly five per cent of farm units and owned about four-fifths of the land while *minifundios* comprised four-fifths of farm units but had only five per cent of the land (Barraclough, 1973: 16). The middle-sized farm sector was relatively insignificant, except in Argentina. Peasants holdings were the main providers of employment, accounting for about half of the agricultural labour force, four-fifths of whom were unpaid family workers. Large estates employed less than one-fifth of the agricultural labour force. In 1960 an estimated one third of the total agricultural labour force was landless and a variety of tenancy arrangements were widespread, an estimated one-quarter (or more) of agricultural workers being tenants or squatters (*op. cit.*: 19-23).

This agrarian system was not only highly unequal but also inefficient. On the one hand, *latifundios* underutilized land by farming it in an extensive manner and leaving a significant proportion uncultivated. On the other hand, *minifundios* were wasteful of labour, using too much labour on too little land. Not surprisingly, while labour productivity was much higher on *latifundios* than on *minifundios*, the reverse was the case regarding land productivity. Average production per agricultural worker was about five to ten times higher on *latifundios* than on *minifundios*, while production per hectare of agricultural land was roughly three to five times higher on *minifundios* relative to *latifundios* (*op. cit.*: 25-27).

The dominance of the latifundia was first successfully challenged by the revolutionary upheavals of 1910-17 in Mexico. However, it was not until the populist government of Cárdenas during 1934 to 1940 that the *hacienda* system finally lost its predominant influence in Mexico. The Bolivian revolution of the early 1950s also dealt a major blow to the landlord system with the implementation of an extensive agrarian reform programme. While landlords no longer dominated the political system in the post-war period in many Latin American countries, they still exerted a major influence on government policy and could swing the power of the State in their favour regarding relations between landlords and peasants (Huber and Safford, 1995). Tenants had to pay

high rents (either in money, kind or labour-services) and agricultural workers were paid low wages and had poor working conditions. Rural labour was largely unorganized and confronted a series of legal obstacles to unionization. Working conditions throughout rural Latin America were exploitative and repressive (Duncan and Rutledge, 1977).

The Cuban revolution of 1959 signalled the final demise of the *hacienda* system in most Latin American countries. Fearful of the spread of revolution to other countries in the region and the spectre of socialism, the US government launched the Alliance for Progress initiative. This encouraged governments throughout the region to implement agrarian reform programmes by providing economic aid. Consequently, from the 1960s to the 1970s a spate of agrarian reforms took place in Latin America among them Chile, Peru, Ecuador and Colombia. In the late 1970s and 1980s following the Sandinista revolution in Nicaragua and the civil war in El Salvador agrarian reforms were also carried out in those countries. Only in Argentina has agrarian reform been completely absent. The uniqueness of the Argentinean case is explained in part by the relative importance of family and middle-sized capitalist farms as well as by the relatively high degree of urbanization. Paraguay and Uruguay had colonization programmes but in neither country has a significant agrarian reform taken place. Finally, in Brazil the colonization of the vast Amazonian region relieved for some time the pressure on land redistribution. But above all strong opposition from landlords stalled any significant agrarian reform although there has been some minor land redistribution since the restoration of democratic rule in the mid-1980s.

Agrarian reforms have generally been the outcome of political changes from above. Although in some instances these were responding to social pressures from below, urban social forces and even international forces, as in the case of the Alliance for Progress, played an important role in bringing about land reform. While the peasantry was not the only social force behind agrarian reform legislation, it did significantly influence its implementation as those areas where rural protest was strongest tended to receive the most attention from land reform agencies. Technocratic and reformist governments seeking to modernize agriculture and integrate the peasantry generally initiated land reforms. Not surprisingly they confronted opposition from landlords who, in some instances, succeeded in blocking or reversing it. Agrarian reforms are social processes whose unintended consequences may redirect the initial purpose of the land reform along radical or conservative lines (but usually the latter) or

in some instances derail it completely. This in Guatemala President Arbenz's agrarian reform of 1952 was brought to an abrupt end in 1954 when he was overthrown by an armed invasion which received support from the US government and expropriations were quickly reversed (Brockett, 1988: 100). In Chile Frei's moderate agrarian reform of 1964-1970 fuelled demands from the peasant movement for intensification of the reform process. The radicalization of the peasant movement was a factor helping Allende to win the presidency in 1970. Peasant radicalism in turn pushed Allende's democratic socialist programme for expropriations beyond what was originally intended (Kay, 1978). The subsequent military coup of 1973, which repressed and disarticulated the peasant movement, returned only a proportion of the expropriated land to former owners as they did not dare to undo the land reform completely.

As for the economic aspects of Latin America's agrarian reform their impact on agricultural production has been mixed. In general results fell well below expectations for a variety of reasons such as poor administration of the expropriated farms which were often organized into production cooperatives, lack of governmental support services such as technical assistance and marketing services, and political disruption by landlords and others groups opposing the agrarian reform (Thiesenhusen, 1989). Furthermore, governments continued with the cheap food policy as well as with the overvalued currency which had a detrimental effect on the profitability and thus investment on the reformed sector. Industrialization continued to be the overriding concern of governments as land reforms were essentially implemented for political rather than economic reasons. Agrarian reforms on the whole did not give the hoped for boost to industrialization either in terms of an increased gross agricultural surplus or in terms of significantly widening the domestic market for industrial commodities through increased sales to the rural population. In some instances, particularly in Peru, governments tried to entice landlords who had some or all of their land expropriated to invest the bonds they had received as compensation payment in industrial ventures but without much success. Landlords became distrustful of governments and often the economic climate during the more radical type of agrarian reforms was too uncertain.

Agrarian reforms certainly did not come cheap in terms of government expenditure as, at least in some cases, landlords were compensated for their expropriated land, the debts of land reform beneficiaries were often condoned or partially written off, the administrative public bureaucracies dealing with the land

reform could be large and expensive, and so on. But land reforms beneficiaries generally did benefit as their standard of living improved as well as the provision of a variety of social services which often accompanied agrarian reforms. The land reform implementation period, which could last from a few years to one, and sometimes more than one decade, often was the only brief time in the peasants' history during which government agrarian policy could be said to have had a peasant bias as in some cases significant government resources were channelled to the land reform beneficiaries (Kay, 1999).

As for the social and political aspects of Latin America's agrarian reform the gains were also less than expected and in some instances even lead to reversals as a result of counter-reforms (Thiesenhusen, 1995). Social equity was not much advanced by the limited gains achieved in income distribution. The initial positive redistributivist impact of many land reforms in Latin America was often cancelled out by the poor performance of the reformed sector and by macroeconomic factors such as unfavourable internal terms of trade and foreign exchange policy. Furthermore, by excluding the poorest segments of the rural population, such as peasant community members (*comuneros*), *minifundista* smallholders and seasonal wage labourers from land redistribution many reforms merely increased socio-economic differentiation among the peasantry. Whatever meagre improvements land reforms achieved for the rural poor these were partially cancelled out during the so-called lost decade of the 1980s provoked by Latin America's debt crisis and the structural adjustment programmes.

The greatest contribution of agrarian reforms was in the stimulus given to institution building in the countryside. Governments facilitated the organization of the peasantry into trade unions and cooperatives of various kinds, such as producer, marketing and credit associations. This brought about a considerable degree of integration of the peasantry into the national economy, society and polity. Prior to reform, insurmountable obstacles lay in the way of peasants creating their own organizations. Political parties began to contend for the peasant vote and extended their networks to rural areas where in the past reformist and left wing political parties in particular had often been excluded by the landed oligarchy. With the land reform peasant participation in civil society was much enhanced. Many peasants, especially when granted a land title, felt that only then had they become citizens of the country. By

weakening the power of landlords and other dominant groups in the countryside, land reforms encouraged the emergence of a greater voice for the peasantry in local and national affairs. However, the peasantry's greater organizational and participatory presence did not embrace all categories of peasants and all regions of the country. There were also setbacks from which, in some instances, peasants have been unable to recover until today.

Generalizing, agrarian reforms in Latin America were often restricted in scope and thwarted in their aims by opposition forces or by government mismanagement. However, in those countries where agrarian transformation went deeper and where poverty and social exclusion were significantly reduced, some degree of social stability, political integration and economic development ensued. Hence it is possible to argue that, from a longer term perspective, agrarian reforms have promoted, if still precariously, social stability and contributed to the democratization of society, albeit with setbacks in some instances. Whilst land reforms marked a watershed in the history of rural society in many Latin American countries, the root causes of social and political instability will remain as long as relatively high levels of rural poverty and peasant marginalization persist. It can be concluded that agrarian reforms provide a framework for growth, equity and sustainable development in rural society only when accompanied by complementary policies and appropriate macroeconomic measures. Whilst a favourable external environment can facilitate agrarian change, internal transformations remain critical for its success. Rather than regarding agrarian reform as a panacea, it is best seen as an instrument of transformation, albeit an important one, for the achievement of these objectives.

#### **4. AGRARIAN TRANSFORMATION, INDUSTRIALIZATION AND DEVELOPMENT IN ASIA**

In this section I will examine the characteristics of South Korea's and Taiwan's agrarian transformation 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.

#### **4.1 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-fifth of the population being rural in the mid-1940s. Landed property was concentrated as about half of the farmland was owned by less than five percent of farm households. However, most of the land was actually farmed by tenants and some hired labourers. Tenants were mainly sharecroppers living at subsistence levels. At the end of the Second World War in 1945, the landlord-tenant system predominated. According to Morrow and Sherper (1970) about half of total farm households were tenants, only 14 percent were owner-operated and the remainder were part owner-operated. Tenants farmed almost two-thirds of the land. As for the size of the farm units these were very small due to country's high population density and the unequal ownership of land. Almost three-quarters of farm households were below one hectare in size while, on the other extreme, farms over ten hectares comprised only 1.2 per cent of households. After the land reform the farms over three hectares practically disappeared as all land above this ceiling was to be expropriated. But the proportion of farms below one hectare did not change much.

The South-Korean land reform was a typical land to the tiller programme as all tenants were entitled to ownership of the land they farmed. Before the land reform was even implemented rents were reduced as soon as the new administration took over control from the Japanese in 1945. There had already been frequent and damaging strikes in the past against the tenancy system and in the 1930s there was major agitation for refusing to pay rents (Jeon and Kim, 2000). Rents could not exceed one-third of the production while previously farm rents averaged 40-60 per cent of production. As soon as the war was over and the Japanese were defeated tenants began to campaign again for a reduction in rental payments as well as for land redistribution. The target at first were Japanese landlords but it soon extended to Korean landlords. The South Korean authorities could not ignore the fact that the nationalist revolt against Japanese colonial rule at the end of Second World War contained a strong element of anti-landlord agitation. Nor could the government disregard the actions taken by North Korean government which already by 1946 confiscated landlords' land without compensation and distributed it to tenants free of charge. These events prompted many South Korea landlords to sell their land to tenants even before the legislation was formally enacted in

1950. It is estimated that as much as half of the landlords' land changed hands in this way (Jeon and Kim, 2000). The South Korea leadership used also the land reform as a means to build up a political power base and to weaken the political threat it faced from the strongest political force which was organized in the landlord-dominated Korean Democratic Party. Thus South Korea's land reform was mainly the result of political circumstances.

The land reform mainly affected the tenure status as tenants became owners but had only a limited impact on the size distribution of operational holdings. As expected farm ownership greatly increased after the land reform constituting almost 70 percent of farm households while tenancy declined to seven percent in 1965. As for the size distribution of farms this changed less dramatically but there was a slight improvement. The percentage of farms below half a hectare declined from 41 percent to 35.5 percent while those between one and two hectares increased from 19 percent to 26 percent between 1947 and 1968 (Morrow and Sherper, 1970). However, contrary to the intention of the land reform legislation, tenancy has increased continually since the late 1960s to the extent that by 1986 30.5 percent of the country's total farmland was under tenancy. This is a very high percentage compared with seven percent in Japan and five percent in Taiwan (Boyer and Man Ahn, 1991).

Various factors worked in favour 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 favour of the land reform programme. 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 which meant that many farms were below an optimal size. The government also had insufficient resources to provide adequate assistance to peasant farmers and was only able to pay a very limited compensation to expropriated landlords (Morrow and Sherper, 1970).

Despite these 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 labour to the urban sector which made possible the rapid expansion of the labour-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 meagre profit (Lee, 1979). Although foreign aid reduced the need to squeeze the peasantry it did prevent the squeeze. For example, PL 480 food aid turned the terms of trade against agriculture from 1963 to 1971.

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 (Jeon and Kim, 2000). The standard of living only gradually improved for the peasantry despite their sustained increases in productivity thereby explaining the massive exodus of the rural population to the cities 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. Due 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 (Wade, 1983).

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 US. 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% 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 (Cho, 1997). While manufacturing exports were prioritized in the 1960s, it was the heavy and chemical industries in the 1970s.

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 farm land 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 socio-economic 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 only shared to a limited extent with the peasantry (Koo, 1984). 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 labour for rapidly growing labour-intensive industries. It could be argued that South Korea's phenomenal economic success was achieved on the back of the peasantry.

## **4.2 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 Taiwanese government was formed by the nationalist forces of the Kuomintang who had to flee from mainland China after their defeat by the communist forces led by Mao. 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 per cent of the harvest down to 37.5 per cent. This measure benefited about 40 per cent 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 per cent 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 per cent they previously paid as rent. By 1956 the number of tenant farmers only constituted about 16 per cent of all farm families while owner-farmers had increased to almost 60 per cent of the total, the remainder being largely part owner-farmers having own land as well as a tenancy (Huizer, 1980: 53). 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 peasant to adopt the new technologies by using some of the police as extension workers. Innovation in agriculture was characterized by increased use of fertilizers and agro-chemicals 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 already started in the mid-1920s when Taiwan was a Japanese colony (Lee, 1971). 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 (Ho, 1971). These non-mechanical innovations were well suited for Taiwan's small scale and labour-intensive farming where the average farm size varied during the last century between one and two hectares (Koo, 1970). As a consequence of the widespread application of these innovations land and labour productivity rose steadily.

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 only available to rice farmers in exchange for rice. These deliveries to the state were valued at a single rate below the market rate. For example, in the period 1952-1968 this averaged 70 per cent of the market price (Moore, 1988: 10).

The extraction of various surpluses from agriculture made undoubtedly 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 which could be used for investment in industry. The export of sugar and rice, which was acquired through the monopolistic State procurement system of agricultural commodities like sugar and rice, allowed, on the one hand, 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 towards the import of the necessary machinery, equipment, and

raw materials for industry. The manipulation of the terms of trade also ensured that agricultural labour was willing to work for a lower wage in the industrial sector than would have been the case otherwise as the returns to agricultural labour were lower than they would have been without agriculture's unfavourable 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 labour 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 (Ranis, 1979).

Despite this squeeze farmers continued to innovate as well as save their meagre surpluses thereby helping to finance Taiwan's industrialization. According to Ishikawa (1990) and Karshenas (1995) these from-above-driven 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. 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 already rural households were saving one-fifth of their incomes (Ong, Adams and Singh, 1976).

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 (1979) who argues that the distributivist land reform was but a facade behind which an authoritarian regime defended its own existence as well as ensuring a massive transfer of resources out of agriculture. 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 extrac-

tion. 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 which 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 para-statal 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 (Wade, 1984). 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 as in the inter-sectoral 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 only lasted for some decades as there has been a shift from urban to rural bias during the 1970s. Due the country's successful industrialization the labour surplus gradually vanished and real industrial wages began to rise (Kuznets, 1979). Agricultural labour costs also increased and agriculture was unable to keep up its dynamism. This prompted the government to abolish the rice-fertilizer barter scheme in the early 1970s (Thorbecke, 1979). 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 (Huang, 1993). 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.

## **5. ASIAN MIRACLES AND LATIN AMERICA'S MISSED OPPORTUNITIES**

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 like 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 Two, 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 change drastically with the debt crisis (see below). By the 1980s South Korea and Taiwan had overtaken even the more developed countries of Latin America such as Argentina, Uruguay and Chile (Chan, 1987). 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 (Ranis and Orrock, 1985; Gereffi and Wyman, 1987; Lin, 1988) 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 (Pinto, 1958; Fishlow, 1989).

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 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 but 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 the imports of consumer goods for the upper income groups. In short, while the East Asian NICs continued to surge ahead the 1980s, the Latin American NICs experienced an absolute as well as a relative decline (Gereffi, 1990).

In this section I am seeking to account for the different development trajectory and performance 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 this is fraught with pitfalls, especially in view of the different historical context (Legler, 1999) and as there is no single path to development (Akyüz, 1998). In many ways South Korea and Taiwan are a special case and their success cannot be easily replicated, if at all (Woo-Cumings, 1997; Jenkins, 1991a). But this does not mean that lessons cannot be learned and that these might not have policy relevance (Evans, 1998; Taylor, 1997). My aim though is limited to account for some key factors which might enlighten our understanding of this spectacular turn around. There are three main issues which 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. Third, the particular interactions between the agricultural and industrial sectors in the process of development as well as the State's industrial strategy. I will analyze each of these three interrelated themes in what follows.

### **5.1 State Capacity and Policy**

In South Korea and Taiwan the State played a far more pivotal role in transforming agriculture and developing the industrial sector as compared to Latin America. While in several Latin American countries a developmentalist State emerged which promoted industrialization it had far less control over the industrial bourgeoisie, the financial sector and the economy in general as compared to the South Korean and Taiwanese State. Furthermore, the State in South Korea and Taiwan had a considerably stronger grip over the agricultural sector than the Latin American State. This difference is explained by the much greater degree of autonomy from society of the South Korean and Taiwanese State (Anglade and Fortín, 1990). As both countries had been ruled by Japan 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 decade or so 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 the population 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 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 agenda.

This relative autonomy of the State was justified by the rulers as being necessary for preventing a communist take over of the country 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 due to the power politics of the Cold War era. This gave both countries a key geopolitical significance which 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 bureaucracy as compared to that of many Latin American countries which are hampered by patronage, clientelism and inertia (Evans, 1998).

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 towards 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, onwards



was a developmentalist State promoting industrialization several decades before South Korea and Taiwan, thus giving it a head start over them, it was also a populist and largely democratic State, while not in all countries at least in a significant number of them. This limited the room for manoeuvre of the Latin American governments as 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 system in South Korea and Taiwan was superior to Latin America's. Far from it as there is little to commend of a system which fiercely repressed any attempt of autonomous organization and contestation 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 State 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 regime in South Korea and Taiwan realized that to gain legitimacy it 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 State, the regime had gained important legitimacy in the countryside through the land reform programme. During the ISI period the populist State in Latin America embarked on similar welfare measures but at a more reduced scale. Furthermore, they were unable to sustain these populist policies as growth faltered and many of the social welfare gains were sacrificed with the painful implementation of the structural adjustment programmes 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 as compared to Latin America is due to what Chan (1988) refers to as 'statecraft' or the ability of the State to design and implement strategies and policies

conducive to development. Throughout this essay 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' 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 already 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 behaviour also spread later to industry during the ISI period when industrialist were demanding from the State ever increasing protectionism and subsidies. Due to the far more limited natural resource base South Korea and Taiwan had to rely far more on their human resources and on their statecraft to create factor endowments and comparative advantages in world markets if they were to successfully development. Thus these East Asian countries succeeded in graduating from a rent-seeking society during the 1950s ISI phase to an efficiency-seeking society during the export-oriented industrialization phase thereafter (Ranis and Orrock, 1995). While Latin America remained locked into a natural resource 'vent for surplus', these East Asian economies went first into a labour-based 'vent for surplus' by promoting labour-intensive industrial exports (Ranis, 1990) but soon shifted to skill-intensive industrial exports (Gereffi, 1990) and more generally to a value-added development strategy driven by technological progress. In agriculture land was cultivated more intensively such a double cropping and there was a shift to higher value added crops such as vegetables and fruits while Latin America continued to rely more on land intensive traditional crops. As for industrial development more will be said later on.

It is through 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 sizeable State apparatus financed from taxing the exploitation of the natural resources, like we have discussed in the case of Chile, 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 (Legler, 1999). Thus the key developmental issue is not 'getting prices right' as argued by the neoliberal policy makers but to get 'statecraft' right (Dietz and James, 1990).

## **5.2 Landlords, Peasants and Agrarian Reform Policy**

Although landlords in South Korea and Taiwan were more actively contributing to agriculture's modernization than landlords in Latin America they vanished after land reform while this has been the exception in Latin America. Agriculture's modernization in South Korea and Taiwan 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 until this day, 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 revert 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 thus ceased being landlords

using their compensation payments for making 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 type of entrepreneurs by using the compensation payments for their expropriated land to invest in new ventures. However, compensation funds were limited, lost much of their value due to inflation and landlords were profoundly distrustful of the government which had expropriated their estates. They thus remained hostile to the government and preferred to undermine it instead of joining it in a national development effort. And landlords continued to fiercely resist any agrarian reform, obstruct its implementation and even seek its reversal. Such a situation of 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 as compared to Korea and Taiwan. The history of the establishment and expansion of the large landed estate 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 the Latin America. Landlords invariable were the direct descendants of the Spanish and Portuguese conquerors or of foreign, largely European, immigrants. Meanwhile the peasantry were 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 compared to Latin America's which greatly facilitated the implementation of land reform and the drive to modernization in South Korea and Taiwan. In comparison to Latin America the State in South Korea and Taiwan was 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 (Aqua, 1974; Starvis, 1974; Ravenholt, 1981). However, 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 than was the case in Latin America (Huizer, 1980; Moore, 1985).

While agrarian reforms in Latin America can point to some achievements on the whole the record is poor and much of the business of agrarian reform is left unfinished. Meanwhile South Korea's and Taiwan's land reform can be hailed as a success. The land reform in South Korea and Taiwan resulted in proportionally more land being expropriated and benefitting more peasants as compared to Latin America. Its impact on growth, employment, income distribution, social integration and political stability was also far more positive than in the Latin American case. One key reason for the success is South Korea's and Taiwan's greater State autonomy and capacity as compared to Latin America's State. Another reason for success can be found in the different agrarian structure between the two regions before land reform which greatly influenced the post-land reform structure and performance. There are, of course, exceptions to this generalization. In this sense it is instructive to examine the case of El Salvador which is unique within the Latin American region as its pre-reform distribution of landholdings was relatively similar to Taiwan's but due to the other factors mentioned above, among others, the outcome of the land reform in Taiwan was still far more successful than in El Salvador (Pelupessy, 1999).

South Korea's and Taiwan's (as also Japan's) agrarian structure has been characterized as unimodal compared to Latin America's bimodal (Johnston and Kilby, 1975). Peasants already before the land reform 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 in the hands of the peasant households while 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 holding 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 contrary to 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 estate's land employing wage labour. The permanent wage labourers 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 wage labour, which did not receive any productive fringe benefits, became more common. Thus large scale farming dominated in Latin America and the rural labour 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 extreme high population density as compared to Latin America landlessness practically was non-existent.

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 has become 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. Nevertheless, today's Latin American dualist agrarian structure is more complex and heterogeneous than in the pre-land reform period but peasant farming is more under stress than in the past. Most of Latin America's shrinking rural population is today of a proletarian or semi-proletarian nature (Kay, 2000).

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 (Griffin, 2000). Thus their rural economy and society is 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.

### **5.3 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 agriculture surplus to industry to support the process of industrial capital accumulation. As I will argue below to achieve a successful process of industrialization and economic development is not just a matter of transferring resources from agriculture to industry but a judicious development strategy entails the pursuit of appropriate policies which generate a dynamic interaction between the two sectors (Ishikawa, 1988; Tomich, Kilby and Johnston, 1995). According to a major study of 18 countries from Africa, Asia and Latin America (except for Portugal) the total income transfer out of agriculture averaged 46% of agricultural gross domestic product per year over a period of two and half decades between 1960-85 (Schiff and Valdés, 1992). While most authors had previously focused mainly on the more visible direct transfers Schiff and Valdés (1998) found that indirect transfers were far more important in accounting for the transfer of resources out of agriculture. 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, i.e. the domestic terms of trade. Meanwhile the indirect transfers are less visible as they arise from outside agriculture, such as 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 (1998) this direct and indirect bias against agriculture constitutes 'the plundering of agriculture'. 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 which I will explore in this section. Furthermore, neoliberal authors like Krueger, Valdés and Schiff (1991) 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 only contributed 1% of total State's revenue and export taxes were also insignificant. However, after Perón took power in 1946 he imposed severe controls on food prices as well as levying higher agricultural export taxes thereby channelling major resources from agriculture in support of a major ISI drive. His measures were far too drastic and did indeed have a very negative impact on agricultural production which took almost two decades to recover (Flichman, 1990). In Brazil the State relied heavily on taxation of agricultural exports, such as coffee, which helped to finance São Paulo's industrial infrastructure. However, agriculture's income tax only contributed around 1% of the State's total revenue from income tax, while receiving about 10% of the total income tax in subsidies for credit and the purchase of fertilizers and agricultural machinery during the 1970s and early 1980s (Brandão and Carvalho, 1991).

While for Valdés and Schiff 'plundering of agriculture' has a negative effect on economic growth for Teranishi (1997) 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. According to Teranishi (1997) the data arising from the World Bank study, which Schiff and Valdés have extensively used, 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 those countries which undertake larger investments of the kind mentioned earlier 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 and class relations, which I have analyzed previously, but above all they fail to discuss 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 favour 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 landlords 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 favourable 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 labour 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 favourably inclined towards industrialization, the State had to make economic concessions to landlords providing them with generous subsidies and other economic benefits. Thus the Latin American State was 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 favouring 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 (Kaufman, 1990). The increasing inefficiency of the industrial sector and its declining dynamism meant that the situation became increasingly untenable for the Latin America State. The crisis of ISI and the populist State paved the way to neoliberal 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 (Gwynne and Kay, 1999).

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 its economic gains due to problems of mismanagement, lack of labour 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 State was unable to control events in the countryside. While the spread of peasant farming in South Korea and Taiwan as a result of the land reform paradoxically strengthened State control over agriculture. The Latin American State's 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 the 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 less so as the transfers were mediated by the market or were voluntary as when, for example, landlords decide 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 which have successfully developed. The situation might differ in countries which 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 case is that the State managed not only to squeeze agriculture but that it 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 the 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 interest 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 counter-productive 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 thus 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 is 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 set up 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 (Oshima, 1987). As for industrialization they tried to ensure via a judicious industrial policy that the resources it transferred to industry were invested in industries which 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 which would allow improvements in agriculture such as the chemical fertilizer, and farm machinery and equipment industries. Furthermore, agricultural-supporting industries received an even higher allocation of foreign aid funds than other type of industries (Chen, 1990). Much of 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 for extracting a surplus from agriculture diminishes and the flow of resources might even revert as has been the case in post-war Japan and in recent decades in South Korea and Taiwan as well as comparative advantages shifted from agriculture to industry (Bautista and Valdés, 1993).

The Latin American policy makers generally failed to create such a win-win

situation. I 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 their pressures for increased protectionism. The structuralist school of development thinkers who, like Prebisch and Singer, had advocated ISI clearly did not favour the deepening of protectionism and the drift towards an increasingly inefficient and wasteful industrial structure (Kay, 1989). On the contrary, Prebisch (1959) was one of the first and foremost champions of industrial exports for Latin America (and other developing countries) already in the late 1950s. But governments which 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 which 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% in 1970, the figures for Brazil and Chile were only 10% and 4% respectively (Ranis and Orrock, 1985). By failing to break through into industrial export market Latin America's economic growth continued to be hampered by the foreign exchange constraint which limited the possibilities for importing capital goods and thus raise the country's investment rate. The key obstacle to Latin America's industrialization was less the lack of capital but mainly the lack of foreign exchange. Thus the neglect of agricultural exports together with the failure to shift at an earlier stage to an 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 which took advantage of their cheap labour supply. This was a major factor in their comparative advantage relative to the industrial countries where labour was expensive and at the time in short supply. The transformations in South Korea's and Taiwan's agriculture ensured that surplus labour 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 industrialist 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 labour absorption of South Korea's and Taiwan's industrial sector meant that at a certain point the labour 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 (Kuznets, 1988).

The foundations for a more equitable income distribution were laid by the agrarian reform. Income inequality in Taiwan, and to a lesser extent in South Korea, are probably among the world's lowest and this has not only had positive effects on social and political stability but provided a solid foundation for their industrialization (Kuznets, 1988). 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 its 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 and also created a distorted and inefficient industrial structure which was limited to satisfy the particular demand profile of the higher-income groups.

Meanwhile in Latin America a large proportion of the surplus rural population which migrated to the urban centres were unable to find industrial employment as Latin America's industrial structure was inappropriate to the existent factor endowments of the region. It produced commodities largely catering for the high-income groups which required capital-intensive and foreign-exchange intensive technologies. Whereas South Korea's and Taiwan's industrial structure was geared to the production of mass consumer goods where greater possibilities for using labour-intensive types of technology exist. 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 and often also required more foreign exchange. This is due to the fact that it was mainly the large-scale commercial

farm sectors which invested in technological innovations and were thus of a mechanical kind requiring the importation of tractors, harvest-combines and other machinery. Thus Latin America's bimodal agrarian structure and the State's bias policy towards large scale farming determined a partially inappropriate pattern of technological change in agriculture and one which was not widely diffused among farmers as it was confined to capitalist farmers. This retarded and limited the spread of innovations in Latin America's agriculture. In Latin America governments also tended to allocate much of their (rather limited) rural expenditures directly to landlords. By contrast in South Korea and Taiwan the State disbursed its rural expenditure in a far more egalitarian manner which was far more conducive to the widespread adoption of new technologies and distribution of the benefits of this expenditure as it was used to finance rural infrastructure, such as irrigation and roads, to which many more people have access to (Aoki, Murdoch and Okuno-Fujiwara, 1997).

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 exhaustion of 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 the investment in the intermediate-goods and above all in the capital-goods industrial sector (Anglade and Fortín, 1990). A similar process happened in South Korea and Taiwan with the difference that both countries were able to continue with, as well as deepen, this shift to a more capital-intensive, labour-skill-intensive, foreign-exchange-intensive and large-scale industrialization process while Latin America was unable to do so (Gore, 1996). Latin America instead of using the abundance of petrodollars available since 1973 in international financial markets for shifting decisively to an EOI strategy (only Brazil and Mexico did some half-hearted attempts) engaged in a consumption binge, 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 mobilise domestic savings, although South Korea also began to borrow more capital from abroad, but they were also able to overcome the twin problems which had blocked Latin America's industrialization, i.e. the foreign exchange and market constraints.

By moving already during the consumer-goods industrial stage into exports the East Asian countries were able to earn the additional foreign exchange necessary to finance the 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 had a powerful incentive to become more efficient and hence competitive (Balassa, 1989). By 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, most of which South Korea and Taiwan started to produce. The comprehensive and inclusionary educational system of South Korea and Taiwan also ensured the necessary supply of skilled labour required for some of these industries whose wages were still relatively low compared to the developed countries as well as to Latin America (Teranishi, 1997).

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 (Gereffi, 1990). Most Latin American countries have even today not yet reached the secondary EOI stage which 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 (Cheng, 1990). However, events unfolded as they did in Latin America and perhaps the historic option was not available to it due to the various structural constraints, among them the unresolved agrarian question, that I have discussed in this essay.

## **6. CONCLUSIONS**

As discussed in this essay, the particular agrarian and industrial structure, the nature of technological change, the pattern of structural change, and the intersectoral resource flows are major determinants of a country's rate of growth. Partly due to

different initial conditions and more importantly due to different policy choices South Korea and Taiwan were able to create their miracle. Meanwhile Latin America failed to live up to its potential as within a few decades it lost its initial advantage over the East Asian NICs having started its industrialization almost half a century earlier.

Agriculture can and needs to make a contribution to industrial development, especially in its initial phase, as 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 nor the incentives to invest 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. The incentive threshold is low as peasant farmers require few economic incentives for expanding production while latifundist, and even capitalist, farming in Latin America required major and very costly incentives for achieving the same results. Despite the heavy net outflow of resources from agriculture Taiwan's and South Korea's government policy was able to raise agricultural productivity sufficiently rapidly to leave some economic incentives to peasant farmers to expand production. At the same time it is important for the achievement of sustained growth that the resources transferred from agriculture to industry are effectively used in developing an appropriate industrial structure. Industrial productivity needs to be increased so as to be able to finance capital accumulation and the eventually rising wages as the labour surplus provided by agriculture gets exhausted (Myint, 1990). 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.

Which are the key factors which explain the difference in performance between the Asian NICs and Latin America? In this essay I have focused on three key factors although others may be identified as well. First, South Korea's and Taiwan's superior State capacity and policy performance. Second, Latin America's failure to create an agrarian structure more conducive to growth with equity. Third, 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 (Jenkins, 1991b). While geopolitical factors were more favourable to South Korea and Taiwan, natural resource endowments were more favourable to Latin America. All the three factors which 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 with each other and even within itself. 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.

Miracles are though not eternal and the Asian NICs have revealed certain weaknesses and limitations as the financial crisis in the late 1990s has shown (Edwards, 2000). Thus miracles can turn into frustrations. Whether frustrations can turn into miracles remains to be seen but history has shown that frustrations do not need to be enduring. However, so long as the vast disparities in economic and political power, as well as in class relations, remain development will continue to be an uneven process globally, nationally and locally as the benefits of development will continue to be captured by a minority.

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