



**DEVELOPMENT PATHS AT A CROSSROADS:
PERU IN LIGHT OF THE EAST ASIAN EXPERIENCE**

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Forthcoming in: *Socialismo y Participación* (Lima, Spring 1996).

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Abstract

Drawing on a growing literature that compares East Asian and Latin American development paths, this paper argues that the neoliberal reading of the lessons from East Asian experience is perverse and misleading in several respects: it misidentifies both the keys to East Asian NIC success and the causes of past failures in Latin America, and it leads to policy prescriptions that are bound to deepen the Latin American region's social-economic and political crises. A one-sided and inaccurate reading of the lessons of East Asia is especially dangerous in countries such as Peru, which are characterized by weakly articulated and underdeveloped domestic markets, a situation manifested in extreme levels of rural poverty and neglect, an enfeebled industrial plant, and sharp social and regional inequalities. In such countries there is wide scope for a government role to promote growth with equity, especially by encouraging agriculture.

Introduction

Since the "lost decade" of the 1980s, many Latin American policy makers have sought lessons from the experiences of the "successful" East Asian NICs (newly industrializing countries), South Korea and Taiwan prominently among them. With the encouragement of international financial institutions (IFIs), these lessons form the basis for policies of providing a competitive climate for private enterprise, keeping government intervention to a minimum, privatizing state owned enterprises, opening the economy to international trade, and maintaining a framework of macroeconomic stability.¹ The stick held by the IFIs was the renegotiation of the terms of payment on massive foreign debts, and the carrot was the reinitiation of capital flows to the region.

Drawing on a growing literature that compares East Asian and Latin American development paths (Donnelly 1984; Deyo ed. 1987; Gereffi and Wyman eds. 1990), we will argue here that the neoliberal reading of the lessons from East Asian experience is perverse and misleading in several respects: it misidentifies both the keys to East Asian NIC success and the causes of past failures in Latin America, and it leads to policy prescriptions that are bound to deepen the Latin American region's social-economic and political crises. A one-sided and inaccurate reading of the lessons of East Asia is especially dangerous in countries such as Peru, which are characterized by weakly articulated and underdeveloped domestic markets, a situation manifested in extreme levels of rural poverty and neglect, an enfeebled industrial plant, and sharp social and regional inequalities.² In such countries there is wide scope for a government role to promote growth with equity, especially by encouraging agriculture.

Our comparison of the post-World War II experiences of Peru and the East Asian NICs will draw attention to the dramatically different policies pursued in the agricultural sector in particular. Unlike their counterparts in the East Asian NICs, policy makers in Latin America in general, and Peru especially, biased policy against

agriculture or simply treated it as a source for the extraction of surplus for investment in urban industry. The result of this pervasive Latin American urban industrial bias in development policy was not only exacerbated inequality and reduced food self-sufficiency but also political instability, and the undermining of sustained economic growth.³

By contrast, East Asian countries that promoted agrarian reform, and then intervened in markets and invested in ancillary programs to support those reforms, have performed remarkably better in terms of improving social conditions, sustaining growth with equity, achieving political stability, and reducing vulnerability to international economic shocks.⁴ With reference to social conditions, for example, in 1990 the Peruvian mortality rate for children under 5 years was quadruple that of South Korea (United Nations 1991: 124).

Today, rather than sponsoring asset redistribution and technological innovation in the agricultural sector, and providing credit programs to boost agricultural productivity and incomes, neoliberal-inspired Latin American governments persist in policies --like overvalued exchange rates and "free trade" with subsidized agricultural producers in the developed world--that actively discriminate against rural producers. The results are inevitable: deepening disarticulation of the domestic market manifested in increasing poverty in the countryside, migration to saturated shantytowns, political unrest, and the persistence of national vulnerability.

What were the contrasting post-World War II policy choices in East Asia and Latin America, particularly with reference to the role of agriculture in development? On the basis of the paradigmatic cases of Peru on the one hand and South Korea together with Taiwan on the other, we will outline the stylized facts about development paths in Latin America and East Asia.⁵ We then use this comparison as the benchmark for analyzing agricultural misdevelopment and its consequences in Peru with reference to state capacity and state-society relations. We conclude with remarks concerning other sources of contrasting policy choices among

the two East Asian NICs and Peru: the international context and theories of economic development.

Development Paths and Policy Choices: An Overview of the East Asian NICs and Latin America

Latin American and East Asian countries, prior to the Depression and World War II, typically produced unrefined or semiprocessed raw materials for export (Gereffi 1990: 17-22). Following the War, at various points in time, countries in both regions passed from this commodity export phase of development to a process of primary import-substituting industrialization (ISI). It involved a "shift from imports to the local manufacture of basic consumer goods" (Gereffi 1990: 17) and was normally associated with tariffs, overvalued exchange rates that provided additional protection to domestic manufactures, a variety of subsidies and promotional policies favouring industry, and an expanded role for the state.⁶

However, while both South Korea and Taiwan pursued ISI in the context of thorough going agrarian reforms, the Latin Americans typically avoided strongly redistributive measures in the agricultural sector (Evans 1987: 214-215). The East Asian NICs, by contrast, forcefully attacked the bases of rural inequality. In South Korea, half the agricultural land was redistributed in the late 1940s and early 1950s, with a 3-hectare ceiling on the size of holdings. "These transfers, combined with very low repayment burdens, resulted in a 20-30 percent increase in income for the bottom four-fifths of the population and an 80 percent decrease for the top four percent." (Donnelly 1984: 267). In Taiwan, during the same period, a similarly massive agrarian reform effort redistributed an estimated 13 percent of the GNP, virtually eliminating the landlord and moneylender class and reducing "their share of total farm income...from 25 to 6 per cent" (Griffin 1989: 179).

These land tenure reforms--together with

the organization of credit, services, and marketing cooperatives as well as hefty public investment in rural infrastructure, health care, and education--provided the basis for food self-sufficiency, rising agricultural productivity and incomes, and a growing rural mass market for the manufactures of ISI industries (Donnelly 1984: 268).⁷ In other words, the domestic

market was articulated and developed in the course of ISI.

The development paths of East Asia and Latin America diverged further after the "exhaustion" of primary ISI. The countries of the two regions responded differently to the problems typically associated with the later stages of import substitution--that is, balance of payments difficulties, current accounts deficits, inflation, and rising wage demands.

While the East Asian economies shifted toward export-oriented industrialization, Latin American countries attempted to "deepen" the ISI process without conducting redistributive reforms that could have expanded the national market to stimulate the "mass production of basic and standardized goods" (Fajnzylber 1990: 337) with locally available technologies and resources. The East Asian shift, which occurred at a time of massive subsidies from the United States in the form of aid, allowed those countries to acquire the foreign exchange necessary for further industrialization while maintaining price stability and low levels of foreign direct investment and debt.

Latin America, by contrast, pursued a "secondary" phase of ISI which involved "using domestic production to substitute for imports of a variety of capital- and technology-intensive manufactures" (Gereffi 1990: 17). Those were destined for the small markets of urban high-income consumers that had been formed in the course of earlier primary export expansion and the first stages of ISI, and their domestic production required costly imported components in addition to the costly technologies available only from large transnational corporations. The eventual results of this strategy were the growth of inefficient and highly protected industries,

persistent problems with inflation and the balance of payments, a substantial increase in foreign direct investment, and foreign debt.

Beyond the issue of the lack of agrarian reform, the negative impact on agriculture of the Latin American version of ISI should not be underestimated. ISI policies typically operate as a form of an "under the table" tax on agriculture (Ranis 1990: 224). Over-valued exchange rates reduce agricultural income by making exports less competitive; at the same time, they provide a subsidy to industry by keeping down the prices of domestically produced food staples which are also often controlled to benefit urban consumers. Over time, in Latin America, this transfer of income led to declining investments in agriculture, increasingly severe balance of payments problems, shortages of basic foods, and worsening rural poverty. It also fostered the mass migration of displaced agricultural workers and small farmers to cities, where there were already too many workers chasing too few jobs (Lefebvre 1980: 95-101).

These trends were accentuated in the secondary phase of Latin American ISI, which was capital intensive. Moreover, small and medium farmers, in addition to agricultural workers, were disproportionately penalized because they lacked the resources of the large commercial and export producers to exploit the "measures designed to promote urban industrial investment...[that is,] differential credit conditions, and both direct and indirect subsidies for the use of capital⁸" (Lefebvre 1980: 97). The resulting mechanization of large estate production led to additional displacement of labour.

In sum, the overall impact of the types of ISI policies implemented by Latin American governments contributed to a vicious circle of increasing asset concentration in agriculture, rural to urban migration, urban unemployment, and the growth of "marginal" populations and the informal sector.⁹

In addition to agrarian reform measures, the East Asian model was more sensitive to the overall requirements of sustaining agricultural development in the course of ISI. Thus the successful NICs pursued a "relatively mild and

flexible version" of import substitution: "they neglected their agricultural sectors less" (Ranis 1990: 213). As indicated above, the South Korean government, for example, did not stop at the redistribution of land. Although it initially used its monopoly over fertilizers and credit, as well as its dominant position in marketing, to extract surplus for industrial development, it restored agricultural terms of trade and provided support for rural incomes as export-oriented industrial development took off (Donnelly 1984: 269). Moreover, throughout the post-war period, the government invested heavily in the promotion of new agricultural technologies (the so-called "Green Revolution") and in ensuring the educational advances that would permit farmers to take full advantage of those technologies.¹⁰

In East Asia, as a result, labour reallocation from the rural areas to the cities was not a convulsive process driven by rural poverty, neglect, and violence. Rather, it was the result of phenomenal growth rates in labour-intensive, manufacturing-export industries alongside the expansion of domestic mass markets in both the cities and the countryside. Despite repression of union organization, urban and industrial wages rose since "increasing standards of living on the farm gave the...labour force, a certain implicit bargaining power that Latin American labour lacked" (Evans 1987: 220). As Gustav Ranis has written:

Once entrepreneurial maturation, combined with the restoration of a fair game for food producing agriculture, had laid the foundation, labour intensive export industries offered a full opportunity, really for the first time, to absorb the system's underemployed on a massive scale. This labour-based 'vent for surplus' led to a pronounced increase in the rate of domestic intersectoral labour reallocation, culminating in not only a relative but an absolute decrease in the agricultural labour force, and, in the course of little more than a decade, the exhaustion of the labour surplus condition, as indexed by nearly constant unskilled wages giving way to rapidly

rising wages in both South Korea and Taiwan (Ranis: 214).

Latin America's inward- and high-income consumer-oriented pattern of secondary ISI, by contrast, was incapable of generating the employment opportunities required for the massive labour surplus flooding out of the countryside. Instead, it created a labour aristocracy (with a clearly non-labour market clearing wage, which was nevertheless continually bid down by surplus labour) and massive shantytowns. As peasants were forced into the cities by the dismal conditions in agriculture, they were also forced into the informal economy by the small size of the so-called "modern" sector.

Secondary ISI, moreover, required massive investments that had to be taken from current consumption or external savings. Multinational corporations, attracted by the prospect of access to protected internal markets, jumped over tariff walls into Latin America, established local subsidiaries that relied on capital intensive production methods,¹¹ and came to exercise considerable influence on economic policy, on their own and in alliance with local bourgeoisies. In comparison, East Asian political authorities had already constructed strong states and were fully in command, so to speak, when multinationals began to take an interest. "The important contrast with Latin America is the fact that in East Asia well-organized bureaucratic authoritarian states with an explicit project of fostering capital accumulation preceded the involvement of the transnationals and shaped the character of that involvement" to accord with nationally determined long-term developmental priorities (Evans 1987: 217).¹²

Finally, borrowing also became attractive to many Latin American governments because foreign loans apparently came with few strings attached. Most Latin American countries borrowed heavily¹³ and the region's high levels of indebtedness--in contrast again with the NICs--sharply increased its vulnerability to external shocks, including escalating interest rates, declining commodity prices, and the investment decisions of multinational firms.

Although the South Korean and Taiwanese political-economic development trajectories should not be idealized, in both countries, growth with equity was substantially achieved. Employment, wages, and income distribution all improved as the labour surplus was absorbed (Ranis 1990: 215). These positive transformations, in turn, laid the foundations for relative political stability in East Asia. The comparatively greater level of political instability in Latin America, by contrast, can be largely attributed to persistently high levels of underemployment (or informal employment), low wages, and growing income and urban-rural disparities, among the largest in the world. The upward phase in Kuznet's U-shaped income curve was continually pushed into the future, not because of any "economic law" but by the inability of development strategies, formulated within certain national and international political power relationships, to address employment generation and equity (Donnelly 1984), matters to which we will return in greater detail below.

The Neglect of Agriculture in Peruvian Development

The earlier statements concerning the neglect of agrarian reform in Latin America may have surprised the reader in light of the extensive land tenure reforms carried out in Mexico, Bolivia, Chile, Cuba, and especially Peru during the radical first phase of the Revolutionary Government of the Armed Forces (1968-1975) when it was headed by General Juan Velasco Alvarado.¹⁴ It is our argument that those reforms, in addition to suffering from the imposition of inappropriate institutional arrangements in the agricultural sector, were not accompanied (with the exception of Cuba)¹⁵ by the types of complementary policies that had made the new land tenure arrangements in the East Asian NICs socially, economically, and politically viable.

Before turning to the Velasco regime's reforms, a few words about pre-reform land tenure arrangements and social power relations in the

Peruvian countryside are in order. Large landlords formed the core of the country's dominant class in both its major regions: the capitalist agro-export cotton and sugar plantation owners of the Spanish speaking and largely urbanized Coast and the more "traditional" estate owners of the Highland with its Quechua speaking indigenous communities.

The landlord classes of both regions subscribed to theories of laissez-faire capitalism and (static) international comparative advantage, favouring the development of the agro-export sector (controlled primarily by them) and the mineral export economy (controlled by transnational firms). Given these ideological propensities and material interests, the dominant landlord classes or "oligarchy" had largely succeeded in blocking industrial promotion policies and state intervention in the economy until the late 1950s, and proposals for agrarian reform right into early 1960s.

The Velasco regime reversed all these policy preferences. State intervention to promote industrialization and social programs increased spectacularly; public ownership swelled from 11 to 26 percent of value added to GNP while the share of foreign capital fell from 21 to 8 percent (Fitzgerald 1976: 36); and a radical agrarian reform law (1969) was to transform property and social power relations in the countryside. These new policies were pursued in a specific social-political and state institutional context whose basic elements and attendant sources of problems were as follows.

First, the local industrial bourgeoisie was weak and largely subordinated to foreign capital. Although favoured by the military regime's industrial promotion policies, capitalist entrepreneurs were distrusted by the officers in power who never developed functioning working relationships with the private sector. Consequently, the industrial promotion policies adopted by the military regime were counterproductive. Moreover, they did not take employment generation into consideration. Those policies thus turned into an exaggerated version of the typical Latin American ISI package derived from the economic thought of the UN-Economic

Commission for Latin America (ECLA) (about which more will be said below).

Second, public ownership expanded beyond the administrative capacities of what had been historically a weak state, in thrall of narrow elite interests.¹⁶ As Thorp (1991) has demonstrated, the Peruvian state had never developed macro-economic management capacities, largely as a consequence of the enclave character and concentrated ownership patterns in its export economy. Active state intervention had not been favoured or needed by the large foreign corporations which controlled mineral exports (copper and petroleum) or the local large plantation and agro-export interests: neither had important stakes in the development of the domestic market. As a consequence, neither the state nor the local private sector had accumulated entrepreneurial and macroeconomic management experience or institutionalized channels of cooperation with one another. Rather, the country's economically powerful had favoured the growth of the "law and order" maintenance functions of the state.

Third, in relation to agrarian reform, the peasantry had been historically marginalized from the political process and could hardly influence policy formulation in the agrarian sector. On the other hand, labour unions in the export enclaves and major urban centres of the Coast, along with shantytown organizations, had acquired the strength to create large-scale disturbances and obtain positive responses to specific demands that favoured the urban and modern sectors. These included low food prices.

The end result of these different pressures and capacity deficiencies was that, in addition to maintaining policies inherited from previous governments that discriminated against Highland food agriculture, the military regime's initiatives prejudiced the market access of Highland pastoralists. To boot, its policies reduced or tampered with supports for the agro-export sector that was reorganized, top down, into worker-owned cooperatives (Korovkin 1990:28-29). Thus José María Caballero could affirm in 1984 that since the early sixties:

no characteristic in Peruvian economic

policy has been more consistent . . . than its pro-urban bias. The treatments received by agriculture and industry were diametrically opposite. While industry received indiscriminate protection, following the Law of Industrial Promotion of 1959, agriculture was subject to a lack of protection that was equally indiscriminate: there were no tariffs on agrarian imports, exports were seriously taxed, food prices were intermittently the object of regulations and controls designed to maintain them at low levels, competitive food imports were subsidized during various periods, and the internal price of imported products was kept artificially low in various periods. In short, policy was consistently oriented toward keeping food prices cheap in the urban markets at the expense of sustained disincentive to agriculture (Caballero 1984: 18).

The many damaging consequences of these types of policies were compounded by the fact that the military government made "no major effort...to improve the availability of agricultural extension services...while the provision of rural credit was assigned low priority" (Thorp 1991: 81). What credit was available was concentrated in the Coastal region and among the newly created cooperatives rather than among small peasant producers who were considered incapable of responding appropriately to incentives and assistance.

The end result was the deepened disarticulation of Highland agricultural production from coastal urban consumption, sharply increased food imports, reduced peasant incomes, and accelerated migration from the countryside. To provide only a few examples of the dimensions of this disarticulation, between 1965 and 1975, the proportion of imported corn and sorghum went up from 0 to 52 percent and of barley from 10 to 32 percent (Korovkin 1990: 30); between 1971 and 1978, the proportion of potatoes in the Lima market supplied by Highland producers fell from 46 to 11 percent (Caballero 1984: 16). Incentives and supports to poultry farming on the Coast

further restricted the markets of the Highland peasantry who were the major cattle raisers (Caballero 1984: 14). At the same time, multinational firms that had established agroindustrial enterprises turned increasingly toward satisfying their growing input needs with imports -- "dairy and feed grain surpluses in the international markets, an overvalued exchange rate, and domestic inflation all stimulated" this process (Caballero 1984: 12).¹⁷

In sum, integration and development of domestic markets -- to generate employment and self-employment with improving rates of remuneration -- were short circuited.¹⁸ Or, to use a phrase from Arrighi's analysis of another experience, the capacity of Peru "to 'capture' linkages so as to enlarge the internal roundaboutness of production" (1979: 162) was frustrated.

The choice of institutional arrangements for the reformed agricultural sector was also most unfortunate in the Peruvian case. As noted above, the military government proceeded to organize large production cooperatives, and it did so from the top down. This was done in the belief that only such units could capture gains from scale economies and ensure productivity increases through the adoption of improved technology and cultivation methods. The lack of participation by, and accountability to, coop members facilitated the hijacking of most of those institutions by their administrative and technical managers who utilized their positions to private advantage. Meanwhile, the macro-economic policy framework made it extremely difficult for even those cooperatives that were well managed and accountable to the membership through participatory mechanisms to turn a profit (Korovkin 1990). By the late 1970s, internal corruption and economic failures led to demands for the sub-division of most cooperatives.

By contrast, the East Asian NICs relied on small scale peasant production and multipurpose cooperative associations in the provision of various services and supports. For example, in Taiwan, despite the lack of political democracy, the implementation of the land reform "was devolved by the central government to the village"

(Griffin 1989: 180). Taiwanese village level irrigation cooperatives

ensure that water is allocated efficiently; they substitute local management personnel for central government officials and thereby reduce the costs of administration; and by involving people in the management of the most important capital assets in the agricultural sector, they ensure that irrigation schemes are designed with the needs of farmers in mind . . . (Griffin 1989: 180).

Finally, one other factor in the agricultural mis-development of Peru must be mentioned: the imitative preferences of urban consumers which are biased against the Highland crops produced by Indian peasants. "[U]rban consumers (with the 'complicity' of agroindustry) tend to develop new tastes more in line with the pattern of food consumption of 'mature' capitalism" (Caballero 1984: 33). (This imitative penchant, of course, was not unrelated to racism and the historic denial of effective citizenship rights to the indigenous peoples of the highland regions.¹⁹)

Following the transition to civilian rule in Peru, the government of Fernando Belaúnde Terry (1980-1985) began a process of cooperative subdivision but maintained policies unfavourable to the agricultural sector along with gutting state macro-economic management capacities that had begun to develop during the previous decade of military rule.²⁰ The administration of Alan García (1985-1990) was disposed to changing macro-economic policy to favour agriculture and fortifying the role of the state but, for a variety of reasons that space does not allow us to discuss here, it lacked the capacity to follow through on its good intentions in an appropriate fashion (see Crabtree 1992).

Since 1990, the neoliberal stabilization and structural adjustment policies (SAPs) pursued by President Alberto Fujimori have further deepened the national market disarticulation described above: agricultural production in 1992/93 was estimated to have plunged to 17.7 percent below its 1988/89 level and its aggregate value in real terms to 52.8 percent (Escoval and Valdivia 1993: 18). Measures taken by the

government included the dissolution of the Agricultural Bank while subdivision of the coastal agricultural cooperatives proceeded with "great disorder" (Escoval and Valdivia, 1993: 22). At the same time, it was the repressive rather than the macro-economic management capacities of the state that were strengthened with the implementation of SAPs (Mauceri 1995).

An intensification of the process of privatization and parcelization of cooperative land (Hunefeldt forthcoming) has also been taking place since the last years of the García administration. The retaking of land from cooperatives created by the agrarian reform that started in the late 1970s in isolated areas became a massive movement in the 1980s. The process took two forms: large cooperative enterprises concentrated mainly on the coast were privatized, and invasions of cooperatives (particularly the SAIS, or Sociedad Agrícola de Interés Social) were carried out by peasant communities in the highlands. The intense internal conflicts associated with this process facilitated the expansion of Sendero Luminoso (the Shining Path), and spilled over into polarization between rural producers and the state. How parcelization and privatization of cooperatives will affect rural productivity, labor markets, incomes, and the concentration of assets will depend on price, credit, and other policies toward agriculture. Up to date, promotional policies comparable to those enacted by the East Asian NICS have not been forthcoming.

Other Sources of Contrasting Choices: The International Context and Economic Theories of Development

The explanation for Latin America's neglect of agriculture has been attributed to a wide range of factors. Above, with reference to Peru, we focused on state-society relations, the strength of organized urban interests vis-à-vis agricultural interests, lack of state macro-economic management capacity, and even imitative preferences in food consumption connected to cultural biases and encouraged by the choices of transnational corporations. Others have pointed to

the relatively larger size of internal markets in some of the Latin American countries at the inception of ISI; the pervasive influence of structuralist thought; and the international environment. These explanations have been examined extensively in the literature cited above and we will comment here on the latter two.

To begin with the international context, the radically redistributive capitalism of the East Asian NICs was clearly a defense against the attractions that communist revolutions in China and North Korea could hold for South Korean and Taiwanese peasants. As Evans points out, in Taiwan, "both the Kuomintang and its American advisers were well aware that the Kuomintang regime's inability to separate itself from landlord interests on the mainland had been critical to the Communists' construction of a rural base" (1987: 214). Moreover, in both Taiwan and South Korea, "the only metropolitan interests in the continuation of traditional rural social structures, those of the Japanese, had been neutralized by military defeat" (Evans 1987: 214). In Latin America, by contrast, the threat of peasant revolutions was much lower while the U.S. government and U.S.-based transnationals had interests, that dated back to the turn of the century, in the maintenance of traditional power relationships.

Beyond the specific interests and relative power of regional hegemony at different moments in time, Fajnzylber (1990) argues that Latin America, in its development policy choices, has imitated the United States in particular. The imitation of North American patterns of luxury consumption, coupled with the failure to "protect the interests of politically and economically excluded segments of the population," he calls "showcase modernity," in contradiction to "endogenous modernity," or the maximization of domestic economic potential to "fulfill internally defined societal objectives" (Fajnzylber 1990: 334-45). In a similar vein, Dore points out the consequences on industry and employment of Latin American upper-class linkages to U.S. and European patterns of luxury consumption:

The consuming upper classes of Japan, South Korea, and China created a flourishing artisan sector to furnish their

indigenous forms of conspicuous and luxury consumption, which only later and secondarily came to be supplemented by imports. When industrial growth began to create and enrich a new bourgeoisie, it retained much of those older life-styles. Hence, the multiplier effects (and income-equalizing effects) in expanding the artisan, cottage-industry sector were considerable. Upper-class life-styles in Latin America, by contrast had always been much more import-dependent, and, with the progress of industrialization, became more so (1990: 360).

The consequences of imitation in food consumption patterns have already been noted earlier with reference to Peru.

Turning to theories of development, in Latin America the strategy of ISI was part of a deliberate effort to weaken the economic and political power of the rural oligarchy. ISI formed part of an explicit developmentalist ideology and a means of creating a "new" industrial elite.²¹ The structuralist diagnosis of the rural economy in Latin America was that it was unproductive because of the coexistence of large *latifundios* and small peasant holdings (Figuroa 1993). Both were perceived as obstacles to progress: the *latifundistas* because of their rentier mentality and the peasants because of the unproductive and inefficient size of their holdings, which made the adoption of improved modern technologies impossible. This perception of the limitations of small-scale production, moreover, was agreed upon by all currents of influential thought, including especially Marxists (Mitrany 1950).

From the premise that small-scale agriculture could not be efficient it followed that policies must be implemented to encourage landlords to modernize production, as well as land reform to promote a class of efficient medium-to-large capitalist farmers and production cooperatives that could capture the benefits of scale economies through the incorporation of modern technology. However, the argument that small-scale agriculture cannot be efficient flies in the face of the evidence from South Korea and

Taiwan--as well as other countries--where small-scale producers were able to increase their productivity by adopting new technologies and capturing the benefits of scale economies through multi-purpose cooperative associations that controlled--in varying combinations--marketing, processing, credit, and agricultural infrastructure (Sen 1964).

The policy choices of Latin American governments also found their roots in the prevalent theories of economic development of the 1950s. The transfer of labour from the countryside to the urban factories was seen as a net benefit to society (Lewis 1954): workers transferred out of economic activities in which their marginal product is zero were to be absorbed into more productive activities in the cities. Rural-urban linkages in the development of national markets were forgotten as urban capitalists were encouraged through a variety of policies derived from the work of theorists such as Arthur Lewis and Raúl Prebisch, the founding Secretary-General of the UN-Economic Commission for Latin America. Needless to say, neither espoused the abandonment of agriculture, but their theories did embody an unequivocal anti-agricultural bias. Indeed, development was seen as synonymous with the shift from agriculture to industry (Lefebvre 1974 and 1992). The potential employment and self-employment generating effects of broadly based rural development were not recognized.

In retrospect, we might ask development theorists of the 1950s why workers should move to the cities when investment in agriculture could improve their marginal productivity? What guarantees that profits in industry will be reinvested, rather than consumed on luxury items or squirrelled out of the country and deposited in foreign bank accounts? What is to prevent capitalists from substituting capital for labour, especially in an environment of rising wage demands and unionization? These questions reveal the implicit bias against agriculture in development theorizing.

Conclusion

The task ahead is to design incentives and opportunities to create growth with equity, and to define "a more effective, and domestically rooted, style of integration into the international economy" (Fishlow 1989: 126). East Asia does not provide a "model" for Latin America to imitate, but it does provide an important comparative perspective on development. One of the main lessons is the crucial role of agriculture and rural transformation in development. In the experience of the East Asian NICs, agriculture was articulated with the rest of the national economy, and it played a critical supportive role in the integration into the international economy. In Latin America, agriculture was neglected as part of the ISI strategy, as well as the neoliberal one.

Today we are confronted with the often-dogmatically accepted view that reliance on markets, and unstable export markets at that, the abandonment of state economic promotional and regulatory activities, and reduced spending on social programs, will attract foreign capital and reinsert Latin America into the international economy on a new footing. Yet efforts to attract foreign capital by reliance on the market have resulted in overvalued exchange rates, speculative bubbles and devaluations, and a process of integration into the world economy that does not have solid domestic foundations. Moreover, neoliberal prescriptions are contradicted by the actual political-economic history of those East Asian NICs that have experienced significant growth and diversification with equity in the post World War II period.

Current prescriptions for the economic recovery of Latin America in general--and Peru in particular--misidentify the sources of the region's economic problems. We have argued that they derive from a number of interrelated political, social, and economic sources manifested in inappropriate public policies that failed to promote national markets and employment opportunities by redistributing income and assets rather than from an overly interventionist state as such. The same corrupt and inefficient state apparatuses that implemented ISI without attention to issues of equity or democracy, are now implementing more costly and painful economic policies with a similar

disregard for their social, political, and economic consequences. It also bears emphasis that the East Asian NICs "took off" with hefty bilateral and multilateral assistance--mainly from the United States--rather than reliance on foreign direct investment and private bank loans which ultimately resulted in a massive transfer of scarce capital to the developed world in the form of interest payments.

Our emphasis on agriculture might be misinterpreted to imply the belief that domestic forces, not the mode of insertion into the international economy, is the key to a new development strategy for the region. This would be a mistake. The degree of articulation of domestic markets is inversely related to national vulnerability to external shocks, such as interest rates, market access, and commodity prices. A principal conclusion that emerges from comparing the Pacific with the Americas is that Latin America exacerbated dependency by pursuing policies of ISI, while East Asia reduced national vulnerability through export-promotion pursued in the context of other policies that promoted the development of domestic markets.

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End Notes

1. The World Bank view of the lessons of East Asian NICs can be found in World Bank, The East Asian Miracle: Economic Growth and Public Policy (New York: Oxford University Press, 1993); World Bank, World Development Report 1991: The Challenge of Development (New York: Oxford University Press, 1991); and the series of publications entitled "The Lessons of East Asia." Recently, the World Bank has acknowledged that the East Asian experience "does not wholly conform to the neoclassical model" (World Bank 1993: 9). See, for example, Kihwan Kim and Danny M. Leipziger, "Korea: A Case of Government-Led Development," (Washington, D.C.: World Bank Country Study, 1993) from the above mentioned series.

2. The fallacies of development theorizing that

underpinned the neglect of agriculture in Latin America are elegantly summarized in Rodolfo Stavenhagen's classical essay, "Seven Fallacies About Latin America," James Petras and Maurice Zeitlin (eds.) Latin America: Reform or Revolution? (New York: Fawcett Publications Inc. 1968).

3. Only Costa Rica and Cuba avoided this general policy orientation (Colburn 1993).

4. The Philippines, the East Asian country which pursued policies similar to those implemented in Latin America, today suffers Latin American-style problems and conflicts (Evans 1987).

5. The term "paradigm" in this context means model of development.

6. The classic analytic summary of ISI policies and standard critiques of them is provided by Baer (1972).

7. Susan George provides a revealing comparative table on the dramatic differences -- despite similar growth rates -- in income growth, income

distribution, various indices of social welfare, and land reform in the Philippines, Taiwan, Mexico, Brazil, and South Korea. During 1955-1975 approximately, the incomes of the poorest 20 percent of Taiwanese increased by 200 percent and of South Koreans by 100 percent; the increase for the poorest in Brazil, Mexico, and the Philippines was "negligible" (1977: 64-65).

8. These were "special foreign exchange rates and exchange allocations for the import of capital goods and manufactured inputs" (Lefebvre, *ibid.*).

9. As noted earlier (footnote 2), Costa Rica and Cuba were exceptions to the trend. Cuban post-revolutionary policies are well known. In Costa Rica, in addition to other policies that favoured rural producers, significant redistribution and democratization of market power in export agriculture were achieved, following the Revolution of 1948, through the organization of coffee processing and marketing cooperatives among smaller farmers. These activities had previously been monopolized by the largest private producers and foreign capital. At the same time, the provision of credit passed from the hands of the largest private producers to the state. (Winson 1989: 99-107 and 143-153).

10. "In Taiwan, land reform combined with the systematic provision of uniformly distributed credit, technical assistance, and fertilizer by the state to make smallholder agriculture viable, thereby providing a more positive backdrop to industrial labor markets as they developed" (Evans, 1987: 219).

11. By contrast, "Growth in the manufacturing sector in Taiwan was very labour intensive and unlike most countries, growth occurred as a result of a rapid rise in the number of small enterprises as opposed to an increase in output and employment in already existing enterprises. Firms remained numerous and highly competitive. Between 1952 and 1985 employment in manufacturing increased from 12.4 to 33.5 per

cent of the labour force, or between 5.7 and 6.3 percent per year. Real wages also grew rapidly, namely 4.2 per cent per annum in 1953-68 accelerating to 10.8 per cent per annum in 1968-78" (Griffin 1989: 180).

12. Emphasis in the original.

13. A prominent exception to high indebtedness is Colombia. Thorp (1991) attributes this to the macro-economic management capacity developed by the Colombian state, in a process of "learning by doing", since the 1930s.

14. The neglect of the rural sector has been an oft-noted feature of Latin American politics for generations. See Charles W. Anderson, Politics and Economic Change in Latin America: The Governing of Restless Nations (Princeton: D. Van Nostrand Company, Inc. 1967) p. 105.

15. The state farms established by Cuban revolutionaries performed better than similar institutions organized elsewhere because they were established on already centralized plantations whose workers had no experience of individual cultivation. Moreover, after a brief flirtation with Latin American-style ISI policies, the Cubans turned to a more balanced development strategy.

16. For example, still in 1962, taxation was contracted to a private firm and, until 1969, "the directors of the central bank were appointed by the country's organized business sector" (Mauceri, 1995: 10).

17. Overall, "in 1975, of the area harvest of crops directly linked to urban consumption, 70 percent was on the coast, 24 percent in the highlands, and 6 percent in the jungle. In contrast, according to the 1972 census, the percentages of regional land use (calculated in standardized hectares) are 42 percent on the coast, 47 percent in the highlands, and 11 percent in the jungle" (Caballero, 1984: 15).

18. Couriel (1981), among others, provides a

comprehensive summary of the performance of the military regime that accords with the analysis we have developed here.

19. Imitation of advanced capitalist societies and cultural bias against indigenous peoples are identified as the sources of Latin America's misdevelopment by E. Bradford Burns, The Poverty of Progress: Latin America in the Nineteenth Century (Berkeley: University of California Press, 1980).

20. "Reasonably profitable" state enterprises with strong leftist trade unions were also intentionally run into the ground (Mauceri, 1995: 10) to pave the way for privatization.

21. The "new" industrial elite, in most cases, however, emerged out of the rural and export interests of the previous epoch, with the resulting landlord-industrialist alliances in which Moore, Jr. (1966) finds the roots of labour-repressive dictatorial regimes. Zeitlin and Ratcliff (1988) have documented this fusion of landlord and industrialist in Chile; Agustín Cueva, from a Marxist theoretical perspective, considers it a region-wide phenomenon (1977).