

Nationalist versus Dependent Capitalist Development:
Alternate Pathways of Asia and Latin America in a Globalized World*

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Cardoso and Faletto's *Dependency and Development in Latin America* (1979) was a brilliant book then and is a brilliant book now. It provided a sophisticated analysis of diverse responses within Latin America to the shared constraints of a dependent situation. Especially notable was the distinction between enclave economies with limited commodity exports and heavy foreign investment on the one hand, and on the other hand, more complex, diversified economies with a respectable presence of national capital and some indigenous industry. With landed oligarchs and foreign capital controlling states in enclave economies, developmental prospects (both growth and distribution) were limited. By contrast, Cardoso and Faletto suggested that in more diversified economies (such as Brazil), national states in alliance with diverse social classes, were in a better position to promote economic growth, though probably not much redistribution.

In a recent essay (see above) President Cardoso similarly outlines the diverse responses to globalization within Latin America. Many of the enclave economies of yore continue to struggle, seeking an appropriate route to upward mobility. Others—such as Chile, Mexico, and Brazil—have responded more successfully, especially his own country, Brazil, which, according to him, is pursuing “globalized social democracy.” A subtle but profound message – at times mute, and at other times, explicit—from Cardoso the scholar and Cardoso the former President of Brazil thus continues to be this: nationalist capitalist models of development—with diversified economies, robust national bourgeoisie and a measure of national *autonomy* from global constraints -- provide relatively superior opportunities for sustaining inclusive economic

growth than dependent capitalist economies that are characterized by heavy dependence on external forces and commodity exports.¹ Reflecting on this earlier work, President Cardoso thus noted recently (see above p.?) that “We were concerned with the degrees of national autonomy and therefore, with the role the state would play in development decisions.”

I share with scholar Cardoso a commitment to what he called historical-structural analysis, as well as the analytical proclivity to trace diverse national responses within common global constraints. I also share with President Cardoso a preference for social democratic outcomes. What I want to add to his keen observations is to broaden the scope of analysis beyond Latin America to include Asian examples. A cross-regional focus both accentuates and helps update Cardoso’s argument, pointing to its continuing fecundity. The comparison further underlines the superiority of the nationalist capitalist model of development, which has often been pursued more explicitly in Asia, over that of a dependent capitalist model, which has often been pursued in Latin America. In comparison to Latin America, the Asian model has facilitated higher and less volatile rates of economic growth, and a greater political room to pursue social democratic policies. The ‘tap root’ of these alternate pathways is relative autonomy from global constraints: states and economies in Asia have been more nationalist and autonomous than in Latin America.

The essay proceeds as follows. I first paint in broad brush strokes the pattern of development in select Asian cases that best exemplify a nationalist capitalist model, juxtaposing them to select Latin American cases of more dependent development. I then try to explain these contrasting pathways by emphasizing their political origins, especially the origins of relative *autonomy* from global constraints. Finally, I point to the main alternative pathways

available to developing countries in a globalized world, selective integration under the leadership of nationalist states, or dependent development.

As a caveat at the outset, it is important to note that, in what follows, I do not pretend to provide anything close to a comprehensive analysis of a cross-regional comparison of Asia and Latin America. The more modest aim instead is to present enough empirical materials to make a case that some of Cardoso and Faletto's core ideas remain relevant.

Asia versus Latin America, Alternate Pathways: Both Asia and Latin America are, of course, big places with enormous internal diversity; economic performance in these regions has also varied over time. And yet, depending on the level of abstraction, the two regions can also be viewed as typifying alternate developmental pathways, especially since the 1980s, when Latin America embraced the 'Washington consensus' on development more ardently than did most Asian countries. Some basic data on growth and inequality in the important countries of the two regions is presented in Table 1. While growth and inequality are not the only desirable components of 'development,' they are core values, especially because rapid growth with modest inequalities helps the poor. The data in Table 1 only confirms what is well known, namely, that when compared to Latin America, Asian economies have grown faster and have done so with relatively modest inequalities.

(INSERT TABLE 1 HERE)

Several trends observable in the data in Table 1 are noteworthy. First, even before Latin America's 'lost decade' (the 1980s), major Asian economies grew faster than Latin American ones. The average annual growth rate in Asia between 1965 and 1980 was 7.1 percent to Latin America's 5.0 percent. If one takes out the two extreme cases—the slow growing India in Asia

and the fast growing Brazil in Latin America—the average annual regional growth rates during 1965-80 were 7.6 and 4.5 percent respectively. Second, the gap in growth rates has widened since 1980. The average annual growth rate of a major Asian economy during 1980-2005 was 7.1 percent to 2.5 percent of a Latin American one. Even if one discounts the lost decade of the 1980s for Latin America, the differential in annual average growth rates remains significant: 5.7 percent in Asia and 3.4 percent in Latin America. Since 1980, some of the world's fastest growing economies – China, South Korea, India, and Malaysia -- are all to be found in Asia. And finally, the growth performance of Asian economies is especially commendable considering that the levels of inequalities in these countries have remained relatively modest. Whereas the rich in an average Asian country are some seven times richer than the poor, the rich in Latin America make nearly 20 times more than their poor (even without Bolivia, an extreme case on the inequality dimension, the average ratio of income of the bottom and top 20 percent of the population in Latin America is about 1:18).

The puzzle of contrasting regional patterns of development has received a fair amount of analytical attention. For example, a popular argument during the 1980s attributed the superior capacity of Asian countries to generate economic growth and to escape the debt crisis that enveloped Latin America in that decade to its export prowess (e.g. Sachs, 1985). The argument was that countries like South Korea and Taiwan adopted market-friendly policies, including equilibrium exchange rates, which led them to promote exports instead of prioritizing import substitution of the Latin American variety. The prescriptive message was that open economies with market-friendly policies were better positioned to succeed at “development.” This message both fed and reflected the emerging “Washington consensus” on development,

which then went further in suggesting that debt ridden countries of Latin America should open their economies, privatize their public sectors, and more generally, shrink the state's role in the economy (Williamson 1990; World Bank, 1991).

This argument for the 1970s was probably wrong in the first place. Sophisticated alternate accounts of why East Asia's development performance was superior, or why the crises plaguing Latin America in the post-1974 period might have roots other than their interventionist states, existed already in the mid-1980s, (e.g. Evans, 1986; Fishlow, 1987; and Johnson, 1986) but were drowned in the mind numbing 'market fundamentalism' that prevailed in Washington of then. In any case, the market-friendly argument could not explain the more recent regional divergence because, by the 1990s, most countries in Latin America had adopted market-friendly reforms. (Stallings and Peres 2000: 47) it is not surprising that a barrage of scholarly criticisms has sought to undermine the market-fundamentalist consensus, often emphasizing instead the positive role of state intervention in growth promotion. (Amsden, 1989; Wade, 1990; Evans, 1995; Stallings, 1995; Chang, 2003; Rodrik, 2003; Kohli, 2004) With democratization, a new generation of left-leaning leaders in Latin America also started repudiating the "Washington consensus." And finally, as the economic performance of countries embracing the "Washington consensus" – many in Latin America—continued to falter, even the World Bank was led to suggest (2005) that their one-size-fits-all, market-friendly prescriptions might have been misleading, opening the way for alternate analyses (Serra and Stiglitz, 2008) .

The roots of why many economies in Asia are growing faster with more modest inequalities than in Latin America run deep. Before addressing these "deeper" causal issues of

national state and class construction in the past, and the subsequent role of national states in promoting a more autonomous development pathway in Asia than in Latin America, a discussion of some of the more proximate determinants of recent trends is necessary. The contrasting links that these regions have forged with the global economy are especially notable (see Tables 2, 3, 4 and 5). On the whole – and here I am fully aware that I am on hazardous terrain, generalizing about regions that are quite diverse internally—Asian countries have created economies with high domestic savings rates, careful management of foreign investment, significant capacity to export manufactured goods, and limited foreign debt. These economic trends emerged from planned activities of effective national states and helped stimulate economic growth. By contrast, many countries in Latin America that embraced the ‘Washington consensus’ remain more dependent on the global economy, with lower domestic savings rates, smaller roles for national capital, higher dependence on foreign capital to supplement limited mobilization of domestic resources, exports focused on lower value added commodities, and relatively high levels of foreign debt. These trends too resulted from policy choices of different types of states at the helm in Latin America, more neo-liberal and complicit with global capital. Each of these issues requires further elaboration, especially how these characteristics might have contributed to differing economic performance.

Some basic data on national rates of savings in the two regions are provided in Table 2. Most growth economists view domestic savings as a key determinant of capital formation and economic growth (Rodrik, 2003, Ch. 1). The data in Table 2 and the illustrative scatter plot in Figure 1 thus provide some insights into the underlying, proximate determinants of cross-regional variation. The first and a relatively well known point to reiterate is that, over the last

two decades, the average annual savings of Asian countries have been somewhat higher than in Latin America (Table 1). Notice that this was not always so; what is truly noteworthy is that savings rates in Asia have risen steadily but not in Latin America. The relationship evident in Figure 1 suggests that it is reasonable to propose that countries with higher rates of savings have contributed to higher rates of economic growth, especially in the more recent period. Moreover, notice in Figure 1 that the pattern holds across regions; barring a few exceptions— notably the Philippines—most Asian countries saved more than Latin American countries and experienced higher rates of economic growth. Beyond this overall picture, what is also striking are the differential savings rates across the important economies of the region: whereas the savings rates of Brazil and Mexico have hovered around 20 percent for several decades, such Asian countries as China, Indonesia, South Korea, and more recently, even India, have constantly improved their savings rates, now close to or, as in the case of China, well above 30 percent (Table 2), contributing to their superior growth rates.

(INSERT Table 2 HERE)

(INSERT FIGURE 1 HERE)

Why Asians save more than Latin Americans is a complex issue, at least in part because the relationship between savings and growth can be mutual. What is important, however, is to not attribute such differences to some cultural givens. On the contrary, as already noted, the average rates of savings in Asian countries have improved steadily over time but not in Latin America; changes cannot be produced by constant givens. Among the forces propelling these divergent savings rates has been conscious government intervention in many Asian countries. Whereas the ruling elite in Latin America have often felt comfortable with their reliance on

foreign capital, the more nationalist rulers of countries as diverse as South Korea and India have sought to minimize such dependence by promoting the accumulation of domestic resources.² While strategies have varied, they have included mobilizing household savings, strengthening private equity markets and promoting savings and investment via the public sector.

Relatively stagnant rates of domestic savings and related high foreign debt have made Latin American economies more vulnerable to external economic pressures. Recent data on foreign debt of Asian and Latin American countries is reported in Table 3. While there are very few surprises in this data, a few points are worth discussing. First, notice the very high level of foreign debt vulnerability of Latin America in comparison to that of Asian countries around 1980; whereas Asian countries on the average owed only some 16 percent of their export earnings to foreigners, Latin Americans owed nearly 40 percent. In case it be thought that these figures mainly reflect the “export prowess” of Asia (Sachs 1985), notice in Table 5 (Column1) that Asians were not exporting all that much more in 1980 than Latin Americans.³ Additional factors contributed to Latin America’s relative debt burden. Latin Americans simply borrowed more heavily in the aftermath of oil-price hike in 1974, when import bills increased and real interest rates declined; this is evident in the higher debt to GNI ratios in Latin America in 1980 (Table 3). Moreover, Fishlow (1987) argued convincingly that external shocks hit Latin America more seriously than Asia.

The scatter plot in Figure 2 suggests that the level of debt in 1980 is a good predictor of growth performance during the subsequent two and a half decades; the higher the level of debt in 1980, the lower the growth rate over the subsequent 25 years. Beyond the cross-country relationship, notice the cross-regional “story” as well: nearly all the Latin American

countries were more heavily indebted in 1980 and grew at slower rates over the next 25 years than most Asian countries. A full story of how these high levels of debt contributed to the “debt crisis” and the related “lost decade” of development in Latin America during the 1980s and beyond need not be told in this short paper (see e.g., Solimano, 2006). Here I can only offer some suggestive causal links.

(INSERT TABLE 3 HERE)

(INSERT FIGURE 2 HERE)

Following the Mexican financial crisis of 1982, the highly indebted Latin American countries found themselves desperate for external finance. This often led them to enter arrangements with the IMF in exchange for a package of policies popularly known as ‘structural adjustment’ policies promoted by the “Washington Consensus.” There is some doubt whether these policies were truly designed to promote growth; it may well be that their primary purpose instead was to ensure that foreign debt was paid off (Stiglitz, 2003). Be that as it may, it is difficult to claim today—as it was during the 1980s—that what held Latin America back was poor management of exchange rates. Two decades of structural adjustment policies have further integrated Latin American economies with the global economy, without delivering on the promise of renewed rapid growth (Stallings and Peres, 2000). Meanwhile, most Asian countries escaped the debt crisis, using the power of more autonomous states to propel their economies and to integrate with the world economy on their own terms. The causal role of debt in the growth story then probably runs through the vulnerability of Latin American states that the debt caused, and led them, in turn, to adopt policies that were pushed by international development institutions and that were not always growth promoting.

A point already made above is worth repeating, namely, that the roots of the “debt crisis” in Latin America were not simply the penchant of Latin America for import substitution. While there is no denying the export success of many such Asian countries as South Korea and Taiwan, the underlying issues were more complex than import substitution versus export promotion. During the 1970s, for example, both South Korea and Brazil combined import substitution and export promotion, with South Korea outperforming Brazil on the export front by a considerable margin. The complex underlying determinants included an efficacious South Korean state that was deeply interventionist and deeply committed to export promotion (Kohli 2004).

As Latin Americans restructured their economies to pay off external debt, along with some debt forgiveness, the debt service ratio declined. What is notable in Table 3 is that this decline was relatively sharp during the 1980s, when economic growth vanished, and much more modest since 1990, when growth resumed. This further suggests that economic growth might have been sacrificed so the external debt could be paid off. Also worth noting in the debt data are the recent levels of debt in Asia and Latin America. The stock of debt in relation to the GNI has continued to rise in Latin America. While the debt service ratio has declined across the board, Latin Americans are still paying nearly quarter of their export earnings (to Asia’s 10 percent), not to import critical goods for further growth, but to pay off their inherited debt.

Latin America has always depended heavily on foreign investment for its economic growth, with fairly mixed results. Data on the stock of foreign capital in Asia and Latin America at two points in time—nearly four decades apart—is presented in Table 4 (Columns 1 and 2). While this data is not without problems, it documents in a general way the greater role of

foreign capital in Latin America than in Asia. By 1967, for example, the stock of foreign capital as a proportion of national economies in Latin America was more than twice than in Asian countries. If figures for China and Vietnam during these early years were available, the contrast would be even more dramatic. The roots of this contrast are, of course, political: decolonization and more autonomous polities and economies in much of Asia versus considerable continuity with earlier patterns of dependency in Latin America. I will return to these political economy issues for further discussion below. While the stock of foreign capital has increased in many Asian countries in the more recent time periods, notice that the average figures for 2006 still reveal a sharp contrast: about 18 percent of the GDP in Asia to nearly 33 percent in Latin America. It is not surprising that the term “dependent development” was coined to capture the dynamics of Latin American political economies (Cardoso, 1973; Evans, 1979).

Recent data on inflows of foreign capital (also Table 4) further confirm these divergent regional trends. Even during the 1980s, for example, when direct foreign investment going into Latin America decelerated, FDI inflows into Latin America (standardized against GDP) were greater than in Asia. This trend has continued into the most recent period. Since the rates of savings and investments vary in the two regions, FDI as a proportion of capital formation also tells a similar story. During the 1980s foreign direct investment flows contributed less than 5 percent of capital formation in Asian countries and their role inched up to some 10 percent over the last two decades. By contrast, after starting from a similar average level, foreign direct investment over the last decade has come to constitute nearly 20 percent of capital formation in Latin America.⁴ That is to say, nearly a fifth of the economic growth in Latin America today is

propelled by direct foreign investments (and this does not include portfolio investments, whose role in real growth is difficult to sort out).

(INSERT TABLE 4 HERE)

How should one assess the role of DFI in the growth processes of the two regions? The related scholarly terrain is controversial, well rehearsed, and largely inconclusive. For example, earlier dependency research suggested nearly an inverse relationship between FDI (especially higher stocks) and economic growth, pointing to such causal factors as the role of FDI in absorbing national savings, discouraging national entrepreneurs, and enhancing pressure on balance of payments (Bornschieer and Chase-Dunn, 1985). This research was subsequently criticized (e.g. Firebaugh, 1992). Though the statistical debate remained inconclusive, the policy debate was overtaken, both by the 'Washington consensus,' that favored such investments, and by the growing need of debt ridden countries for such investments as a source of foreign exchange. Juxtaposing recent Asian and Latin American data also does not provide any clear cut conclusions.

As is evident in Figures 3 and 4, the relationship between stock or flows of FDI and recent economic growth is fairly weak; neither cross-country nor cross-regional relationships are readily evident. Even within Asia, for example, countries such as India and South Korea have grown handsomely with low levels of FDI, while others, such as Malaysia, China and Vietnam, have achieved high rates of economic growth with the help of FDI (Figure 3). What one can say from this data instead is that, at minimum, there is little support here for the neo-liberal argument that greater integration into the world economy along the axis of capital is

good for economic growth. However, there is also little support for the more radical argument that such integration is actually bad for growth.

(INSERT FIGURES 3 and 4 HERE)

The question of whether foreign investment helps or hurts economic growth is probably a wrong question. For a while now scholars and policy makers have recognized that much depends on the terms on which FDI comes into a developing country. FDI is more useful when it promotes manufactured exports and provides access to new technology and management. This, in turn, directs attention to the “bargaining capacity” of national states vis-à-vis multinational corporations. In this context, notice once again some of the regional patterns evident in Figure 3. Most countries in Latin America (with the significant exception of Chile) have since 1990 received moderately high amount of FDI (some two to three percent of GDP) and grown at fairly sluggish rates; they are concentrated towards the bottom-middle in Figure 3. These countries have needed to depend on external resources, in part to compensate for low rates for domestic savings, and in part as a source of foreign exchange necessary to pay off a large foreign debt. The greater such dependence, the more difficult it has been for Latin American states to set the terms on which foreign investors invest. As a result, FDI in these countries has been concentrated either in commodity exports (e.g., mining) or in manufacturing and services for domestic consumption (e.g., automobiles, electricity, telecommunication). (Velde: 2003, Ch. 5)

By contrast, there are two modal patterns evident in Asia, both of which are worth a comment. The countries in the “Asia 1” group (Figure 3) constitute the main pattern in Asia; typified by India and South Korea, these are countries with relatively low rates of FDI inflows

and moderately high rates of economic growth, financed mostly by high rates of national savings. With limited dependence on foreign investment, autonomous national states in these countries have often channeled FDI into the promotion of manufactured exports. The same focus on manufactured exports is also evident in the few countries in the “Asia 2” group, but with an important distinction: these countries depend very heavily on FDI. How does one explain the capacity of national states under such conditions of “dependency” to channel FDI into priority areas? The answer in part has to do with the cheap and disciplined work force in countries like China and Vietnam that makes them attractive to foreign investors. However, what also enhances the bargaining capacity of these states—or, at least reduces their dependence on Western countries—are the diverse and regional origins of their FDI. For example, anywhere from half to two thirds of foreign investment going into China originates in Hong Kong and Taiwan.⁵ In Vietnam also 66 percent of total FDI inflows between 1990 and 2006 originated in Taiwan, Singapore, Korea, Japan and Hong Kong (Nguyen and Nguyen: 2007, Table 20). Contrast this with the typical pattern in Latin America, where on the average some 44% of FDI in 1995 originated in the USA and nearly 30% in Europe (Velde: 2003, Table 37). Given the overall pattern of FDI in Asia and Latin America then, it becomes clear why Latin American countries are more likely than Asian countries to pursue economic policy advice originating in Washington based international development institutions.

Finally, some data on patterns of exports from Asia and Latin America are provided in Table 5. While Asians clearly export more than Latin Americans, the differences are not dramatic. As noted above, this was already so in 1980. Since the embrace of neo-liberal policies, the overall exports of Latin American countries grew over the 1980s, with a lion’s share

of these earnings going towards paying their accumulated foreign debt. The gap between Asian and Latin exports has again widened in recent years. However, if one excludes the more extreme case of Malaysia, Asians in 2005 exported 40 percent of their GDP to some 30 percent for an average Latin American country. This difference is significant but not dramatic. Based on this, it would be hard to continue to attribute superior growth performance of Asian countries to their relative export prowess; note the weak cross-country relationship in Figure 5. The real dramatic difference in export patterns across Asia and Latin America lies instead in the composition of their exports: whereas Asian countries mainly export manufactured goods, Latin Americans mainly export commodities (Table 5). Only Brazil and Mexico in Latin America (notice, not Chile) are significant exporters of manufactured goods. The remaining Latin countries continue to fit the profile of what Cardoso long ago characterized as enclave economies, with heavy foreign investment and commodity exports. By contrast, the preponderance of manufactured goods among Asia's exports is really noteworthy. It underlines the relative competitiveness of Asian economies and thus points to one more component of their superior economic growth. As is evident in Figure 6, not only does the capacity to export manufactured goods contribute to economic growth cross-nationally, but the cross-regional variation is also quite stark.

The preponderance of manufactured exports also points to one factor that might contribute to an outcome that I have not discussed so far, namely, a more egalitarian income distribution in Asia (Figure 7): a focus on labor intensive manufacturing may help create more and better-paid jobs in manufacturing in Asia than in Latin America. Of course, the roots of Latin American's greater inequality are complex and diverse. For example, Fields in his survey

of the possible underlying sources of these inequalities included such factors as inequality in land ownership, inequality in access to education, and resistance to progressive taxation (2001. p. 67). However, among the underlying correlates, he also noted the importance of the failure to generate sufficient employment and a failure to pursue labor absorbing exports. The data in Figure 7 underlines this relationship, suggesting that the failure to promote manufactured exports leads to preponderance of low income jobs and thus contributes to relatively skewed income inequalities.

(TABLE 5 HERE)

(FIGURES 5, 6 and 7 HERE)

The “Washington Consensus” on development was supposed to help Latin American countries grow faster by employing their factors of production more efficiently, including labor, which, in turn, ought to have helped a better income distribution. Unfortunately, much of this did not come to pass (Stallings and Peres, 2000). Instead, Asian countries, that did not readily embrace policies dictated from Washington, have continued to grow faster with more modest inequalities. The underlying determinants of such divergent patterns of development are complex. I do not pretend to have provided anything close to a full explanation. What the simple exercise above documents is that Asia and Latin America continue to pursue different models of development: Asia’s development model is more nationalist and that of Latin America more dependent. The Asian model has been characterized by high rates of domestic savings, limited foreign debt, a pattern of foreign investment that limits their relative dependence, and a significant capacity to export manufactured goods. By contrast, Latin

American economies continue to save less, depend mainly on advanced Western countries, especially the U.S., for their foreign capital and thus for their growth, and export more commodities than manufactured goods. While simple, bivariate regressions do not prove anything, the data above underline the regional divergences and suggest that these alternate models of development have been consequential, especially for molding growth patterns.

Asia versus Latin America, Political Origins of Alternate Pathways: If Asians and Latin Americans have indeed pursued different models of development, especially over the last quarter of a century, what are the deeper determinants of these alternate pathways? How, and in what sequence, has the causal story of Asia unfolded differently than that of Latin America? Any full story would have to be rather complex, taking into account differing geographies, resource endowments, and even colonial histories (Kohli, 2004; Krieckhaus, 2006). Less ambitiously for this paper, my main proposition is that an important component of the deeper causal story is political: the origins of the differing pathways traversed by Asia and Latin America are rooted in differing degrees of policy autonomy from global constraints enjoyed by national states in the two regions: this autonomy, in turn, reflects the different processes of state formation in the two regions, especially around the period of WWII. Generalizing hugely, and again somewhat dangerously, decolonization in Asia created significant political discontinuities, that, in turn, led to modified class relations, altered external relations, and more autonomous, nationalist states and development choices; much of Asia following WWII, in other words, genuinely broke free of Western Colonialism. By contrast, there was no such discontinuity in Latin America in the post-WWII period. State and class formations modified of course, but only incrementally, continuing along the grooves of dependent development of a

much earlier historical origin; Latin American countries either remained or became more and more a part of the United State's "informal empire." While path dependence is seldom inevitable, the early economic choices of Asian countries – say, from 1950 to 1980 --differed from those of Latin American countries and Asian countries experienced different external pressures than Latin American ones. These forces further accentuated the alternate developmental pathways of the two regions, more nationalist in Asia and relatively dependent in Latin America.

Following WWII, for example, China had a major communist revolution and the world's most significant non-communist nationalist movement captured state power in India. The Asian giants thus began their sovereign development experiments by focusing first and foremost on state consolidation. Once in power, the nationalistically inclined Chinese communists (Johnson, 1962) minimized Western economic and political influence on China, eliminated China's comprador classes, and created a well organized state that penetrated the Chinese society deeply (Schurmann, 1968). While India's democratic state was less efficacious than the Chinese communist state, say, in implementing land reforms, India's nationalist leaders also prioritized state consolidation, self-reliance, and the maintenance of national autonomy. They too minimized the role of old classes that collaborated with the British, as well as keeping at bay new political and economic dependencies (Nayar, 1989). The Asian giants then used the power of newly consolidated states to create nearly autarkic economies in the early decades. While these experiments were hardly without costs, even serious costs in areas of state repression and state-led upheavals(China), slow and lingering poverty (India), and sluggish economic growth (both China and India), there is no denying that state consolidation

laid the foundation for a nationalist model of development in both China and India, which is now paying off.

Besides China and India, decolonization created a variety of political outcomes in the rest of Asia. In spite of the political variety, Asian countries shared a commonality, namely, the creation of sovereign and, for the most part, new states that emphasized national autonomy, both from past colonial masters and from the emerging global leader, the United States. For example, the Japanese lost WWII and, along with that, their power and investments in such colonies as Korea and Formosa; this led to a new political beginning in the partial countries of South Korea and Taiwan. The Dutch were forced out of Indonesia, as were the British from Malaysia. Both the French and the Americans were eventually defeated militarily in Vietnam. While there were exceptions (e.g., the Philippines), well organized mass nationalist and/or revolutionary forces consolidated power in most Asian countries following WWII and pursued economic nationalism. It might be objected that countries like South Korea or Pakistan very quickly developed new dependencies, this time on the U.S. This is true but with one important qualification. These new dependencies were mainly a product of the Cold War and thus were security-oriented in nature. For the most part, countries like South Korea were left alone to pursue their economic development—which was highly nationalistic and state-led—even gaining preferential resources and treatment from the U.S. as a quid pro quo for security arrangements (Hart-Landsberg, 1993).

In contrast to Asia, decolonization in Latin America was in the distant past. Patterns of state consolidation varied but occurred mainly in the inter-War period. Unlike the Asian pattern of anti-colonial mass mobilization, the underlying processes leading to state

consolidation in Latin America often involved struggles between rival elites, especially struggles between centralizing and regional elites, and conflicts involving more nationalist elites and elites supported by Britain or the U.S. Following WWII newer political formations emerged in many Latin American countries too. Some of these also pursued economic nationalism and populism. Unlike in Asia, however, these political tendencies were seldom hegemonic in Latin America; instead they often faced opposition, including externally supported opposition. More important, these tendencies eventually lost out (more on this below). For the most part, therefore, following WWII, there was more continuity than discontinuity in the social base of state power, in patterns of economic dependency, and in developmental choices in Latin America (Cardoso and Faletto, 1979). Most of these regimes readily embraced the emerging Western alliance, led by the United States. Take, for example, President Cardoso's own country, Brazil. While a new democratic regime of sorts replaced an authoritarian regime following WWII, Skidmore (1967) skillfully demonstrated the elements of continuity in the pre- and the post-WWII political economy of Brazil. In Brazil Vargas even came back to power, this time as a democratically elected president.

The Cuban revolution marked a moment of potential change in Latin American politics, in the direction of activist and autonomous states supported by mass politics. From Goulart to Allende, a variety of nationalists, populists, and social democrats emerged to give voice to new political forces of the region. The United States—the regional hegemon, committed to open economies, especially in its 'backyard'—sought to co-opt the emerging political restlessness in a liberal direction via the Alliance for Progress. When such efforts did not succeed, the U.S. just as readily threw its weight behind more reactionary political forces that would at least provide

favorable economic policies. This tilted the balance of power within Latin American societies, retarding the trend towards more nationalist and plebiscitary politics. Landed oligarchs, foreign investors, and militaries – often trained in the United States – felt threatened by the new direction. A variety of military coups that occurred in Latin American countries during the 1960s and the 1970s brought to power elites who were inclined to cooperate politically and economically with the US on the one hand, and to pursue a highly elitist and a dependent model of development at home on the other hand. When in exile, Cardoso (1973) coined the term ‘associated-dependent development’ to capture these new types of Latin American political economies.

While anti-colonial mass movements consolidated power in many Asian countries during the 1950s and the 1960s, similar political forces were thwarted in Latin America. What emerged in the latter instead was a variety of narrower elitist arrangements under American tutelage. These contrasting political developments cast the die for a longer term divergence in political and economic evolution of the two regions. In the international political arena, for examples, many Asian countries went on to spearhead the non-aligned movement. By contrast, Latin American countries joined the Western alliance. These differing political tendencies were evident in the United Nations: around 1955, Latin American countries started voting with the West instead of joining the non-aligned group (Newcombe, 1970). A variety of developmental changes in the two regions can also be traced back to these earlier contrasts in state construction: land reforms and related patterns of inequalities; strategies towards dependence on foreign capital; and the role of national capital and indigenous technology, including trained manpower, in industrialization strategies. These contrasting policy choices, in

turn, further reinforced the character of developmental states of the two regions, more nationalist in Asia and more dependent in Latin America.

Take, for example, the issue of land reforms. We know that land reforms were a lot more successful in Asia than in Latin America (Evans, 1986). It is important to recall the strong political motivation in the pursuit of land reforms (Tai, 1974). Traditional land owning elites not only limited the reach of the new Asian states into the countryside, but comprador classes also often had their roots in landed wealth. The process of consolidating nationalist states in Asian countries was thus aided by the elimination of a variety of “feudal” types of intermediate elites. Land reforms enhanced the reach of the state on the one hand, and moderated inequalities of wealth and power in the countryside on the other hand. Such developments were clearest in the communist cases of China and Vietnam. The threat of communism, in turn, also facilitated significant land redistribution in such other cases as South Korea and Taiwan. Even in an India—where land reforms were mostly a failure—the largest *zamindars* (traditional large land holders who had often cooperated with the British colonial government) were broken down and pressures of democracy mitigated the “urban bias” of the polity, leading to reasonable terms of trade between the city and the countryside. A similar outcome unfolded in Indonesia, where the mechanism was less democratic politics but more threats of peasant rebellion. Of course there were exceptions, such as the Philippines and Pakistan. These cases continued to resemble Latin American cases in so far as landed oligarchs survived well into the modern period, state consolidation remained incomplete, and dependence on the U.S. was significant.

During the 1950s and the 1960s, the well known import substitution model of development (ISI) was pursued in both Asia and Latin America. However, it is important to

reiterate the significant differences between Asian and Latin American ISI strategies. On the whole, Latin American countries pursued ISI with foreign investors producing consumer goods for Latin elites behind high tariff walls. By contrast—again, generalizing hugely—ISI policies in Asia focused on heavy industry that was promoted by domestic resources and for domestic markets. These contrasting policies reflected the contrasting political preferences of the more nationalist versus the more dependent states on the one hand, and further reinforced these tendencies, with future consequences, on the other hand.

In Communist China, for example, a heavy industrial base was laid down by public investments. This involved mobilization of domestic resources, often via brutal political mechanisms, and then borrowing and slowly but surely indigenizing technology. Public investments also played a crucial role in India's heavy industry oriented ISI, but then so did indigenous capital. The Indian state also limited the role of foreign capital in India's development and prioritized training indigenous technical manpower to aid its industrial ambitions. When the dust of civil war and reconstruction settled in South Korea (say, by the 1960s), the government there pursued simultaneously heavy industry oriented ISI and a state subsidized drive to promote light industry exports, both financed by domestic savings. Here too a direct role for foreign direct investment was minimized and spread of education helped rapid industrialization. It is important to reiterate that none of these cases were cases of "easy ISI" that was pursued in Latin America. Asian countries by contrast pursued "difficult ISI." Committed to creating modern but sovereign political economies, they initiated policies that helped mobilize domestic resources, limited foreign capital, and built indigenous technology and industry. For example, notice above in Table 4 (Column1) that, by 1967, the stock of

foreign capital in an average Asian country was less than half of that in a Latin American country, and this data does not include the much lower figures from the communist cases of China and Vietnam. Of course, a South Korea or a Taiwan with their efficacious developmental states grew much faster in the pre-1980 period than an India or a China (for an analysis of why, see Kohli, 2004).⁶ However, in all these cases foundations of more nationalist political economies were laid down by conscious political decisions of post-colonial states.

The Latin American version of ISI, by contrast, has been rightly characterized as 'easy ISI.' The term is apt because Latin American leaders seldom took the difficult decisions that might—say, over the medium term—enhance national savings, build national technology, and lay the foundation for heavy industry. One is tempted to impute fairly distinct developmental motivations to Latin American rulers: whereas many rulers in Asia were committed to creating strong and modern national political economies, development for Latin American rulers often meant enhancing national incomes so that a narrow ruling class could rapidly join the life styles of Europeans and Americans, with whom they identified.⁷ Be that as it may, the results are clearer. In Brazil, for example, the development strategy focused on inviting foreign investors to produce consumer goods for its upper and middle classes. To be fair, savings rates in Brazil did improve and some heavy industry did take root, but nothing in comparison to countries like South Korea, and then Brazil was an exception in Latin America.

Neo-liberal scholars during the 1980s often blamed high tariffs in countries like Brazil as responsible for their lack of export prowess and debt crisis. This was discussed above. What is often forgotten in these discussions is the important role high tariffs played in attracting foreign capital to Brazil and elsewhere in Latin America in the first place. Foreign investors came to

Latin America, not to take advantage of their cheap labor for export promotion, but to take advantage of their protected elite markets. This is what Fishlow (1987) probably had in mind when he brilliantly characterized East Asian integration into the world economy as more along the axis of trade and Latin America's integration more along the axis of foreign capital; while countries like South Korea mobilized domestic resources and exported, Brazil and others invited foreign capital to produce for indigenous elites. The Latin American strategy worked as long as foreign capital kept coming in, and as long as a focus on enriching and catering industrialization to narrow elite tastes could be maintained politically; these preconditions, however, have not always proven easy to sustain.

While there were many false starts, and a fair amount of learning occurred via trial and error—and there are some important variations within the respective regions—on the whole, between 1950 and 1980, nationalist states consolidated power in most Asian countries while eliminating or mitigating the power of traditional intermediaries, minimizing the role of foreign capital, and laying the foundations for the development of indigenous technology and heavy industry. By contrast, the ruling elites in Latin America continued to rely heavily on foreign capital, failed to mitigate internal economic inequalities and the related elite-mass political gap, and constructed political economies that remained dependent on the outside world.

While the growth performance of many Latin American countries during this period was often impressive (again, notice Brazil), the fact is that this growth remained dependent on the availability of foreign capital. With growing foreign debt in the late 1970s and the early 1980s, foreign capital increasingly shied away from Latin America, leading to the “lost decade” of

development. By contrast, most Asian economies surged ahead during the 1980s, especially the giants, China and India.

Asia versus Latin America, Coping with Globalization: On the whole, nationalist states of Asia have coped with globalization from a position of relative strength, making concessions when necessary, but also taking advantages of available opportunities. By contrast, indebted and dependent countries of Latin America have just as often confronted globalization on bended knees. When pressured by the U.S., the IMF, and the World Bank, Latin elites readily embraced policies based on the Washington Consensus on development; Asians did so more selectively. The contrasting results include higher rates of economic growth and lower inequalities in much of Asia over the last quarter of a century than in Latin America. With democracy, political reactions in Latin America only seem to confirm these tendencies: considerable political rage against the Washington Consensus on the one hand but considerable inability to mobilize this anger constructively on the other hand. We thus notice that the Mexican elites have narrowed their own political room to maneuver via NAFTA, there remains considerable gap between left rhetoric and real performance in Lula's Brazil, and neo-populism has resurfaced in a Bolivia or a Venezuela.

Select Asian economies—China, India, Vietnam, South Korea—are now among the world's fastest growers. While the respective developmental approaches of these countries differ, they also share some commonalities, especially when juxtaposed to some typical tendencies in Latin America. China, for example, is undergoing a state controlled transition from socialism to capitalism. While the role of foreign investment in this transition seems very large indeed, several qualifications are necessary. First, as was clear above in Table 4, the

accumulated stock of FDI in China is still relatively modest (some 11 percent of China's GDP in 2006, while that in Brazil is close to 20 percent, not to mention Chile's 55 percent). Second, timing and sequence matters; much of FDI in China has come in after the Chinese state was well consolidated, directing the process of economic modernization on its own terms. And finally, as already noted, anywhere from half to two thirds of the so-called foreign investment going into China originates in Hong Kong and Taiwan. This Diaspora investment is less foreign investment and more the revenge of the Chinese bourgeoisie that were once ousted by the communists, and who are now busy reestablishing a state-capital alliance that will manage the new, enlarged and powerful China in the future.

India's liberalizing reforms are partly real but partly a myth. Direct foreign investment remains relatively limited in India and very recently India has even limited the inflow of the more speculative types of portfolio investments. The main model of development in India is a close alliance between state and indigenous capitalism (Kohli, 2006). The Indian state has carefully calibrated external opening of the Indian economy, ensuring that indigenous capital does not bear the brunt of such an opening. The state-capital alliance has facilitated rapid growth but, given modest inequalities, the growth is also benefitting the poor.

Besides the Giants, South Korea has of course been one of the world's fastest growing economies for a long time. The Asian financial crisis hit South Korea hard but what is remarkable is the relatively quick recovery of economic growth (Eichengreen and Chung, 2004). The basic model of development has undergone some important changes in South Korea, but these are most evident in the financial sector. The core state-chaebol alliance for exports and growth remains intact. What is also noteworthy is the progress towards social democracy that

is evident in South Korea (and in Taiwan) since democratization (Wong, 2004). Democratic pressures from below are clearly more consequential in economies dominated by national than by foreign capital.

A nationalist state-capital alliance that presides over high economic growth rates and moderate inequalities is the main model of development in Asia. Of course, there are exceptions (Indonesia's recovery is slow, Malaysia is achieving good growth and distribution but with heavy foreign investment, and Philippines and few other countries remain laggards) but, on the whole, Asian countries have pursued a nationalist capitalist model of development, and with considerable success.

By contrast, national political formations remain relatively weak in dependent Latin America, economic growth remains a function of availability of foreign capital, and inequalities are proving to be very stubborn, as is the elite-mass political gap. Take, once again, the important case of Brazil. On the whole, Brazil is a well governed country. However, development choices within it are highly constrained, constraints that reflect an accumulation of past choices. The domestic rates of savings remain quite low (Table 2) and the accumulated burden of foreign debt quite high (Table 3). Brazil thus needs continuous inflows of foreign capital, both as a source of foreign exchange and economic growth. Wary of scaring away such investors, even a left-leaning leader like Lula has shied away from policies—whether redistributive or growth promoting—that might involve the state in deficit spending and be held responsible for reemergence of inflation. Modest economic growth has returned but sharp inequalities remain (Table 1). The ruling idea of growth first-redistribution later underestimates how a focus on growth itself reinforces the power of those whose interests will

have to be challenged if redistribution was to be pursued (Amann and Baer, 2006). Without a state that prioritizes economic nationalism, for now even economic growth remains a function of steady foreign investment inflows.

To conclude, I have argued in this paper that the more nationalist model of development pursued in Asia is proving superior to the more dependent model of development of Latin America. This bald argument requires numerous qualifications: Asia and Latin America are large continents, with significant internal diversity; the case that states in Asia are more nationalistic and autonomous of global constraints than in Latin America can be overstated; and emerging trends of growing inequalities and further global integration in the Asian giants, India and China, may well make the near-future different than the recent past. In spite of these qualifications, if the empirical analysis developed above is persuasive, an important conclusion follows: nationalist states remain important economic resources in a globalized world. On the whole, the more nationalist version of the capitalist models of development seems to be serving the needs of the citizenry in those countries better by generating higher rates of economic growth and limiting the worst forms of inequality.

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Endnotes

¹ Note that as early as 1971 (the year the Spanish edition of *Dependency and Development* was published), Cardoso and Faletto argued as follows: continuation of industrialization in a dependent situation “requires changes favorable to development in the international market, and still more essential, elements favorable to a broader measure of *autonomy* within the socio-political game of the developing countries.” (Cardoso and Faletto, 1979: 19-20). Then again: “When development and *autonomy* are achieved simultaneously, resources and economic and organizational creativity located within the nation have been mobilized.....This was not the course followed by Latin America as it attempted to enter the era of modern industrial Production.” (Cardoso and Faletto 1979: 162), Emphasis added.

² It is difficult to provide specific country level detail in a short paper. I have analyzed these and related issues for at least the cases of South Korea, Brazil, and India in Kohli (2004).

³ The case Sachs (1985) made for the vastly superior export performance of Asian countries in the early 1980s rested on choosing the four most successful Asian exporters, Indonesia, South Korea, Malaysia and Thailand.

⁴ These figures are calculated from the online data on “foreign direct investment,” United Nations Conference on Trade Development.

⁵ See Branstetter and Lardy, 2008, Figure 16.4, p. 643 and footnote 11, p. 642. The foreign investment originating in Hong Kong, Taiwan and “other” locations (much of which is from Taiwan but routed via such tax havens as Cayman Islands) clearly constitutes a majority of foreign investment coming into China.

⁶ Those familiar with my other work may wonder if there is a tension between the argument presented in this paper – with an emphasis on national autonomy from global constraints as driving development success – and that developed in the 2004 book, where the emphasis was on differing state capacities. The tension is real but the way I resolve it in my own mind at present is that national autonomy is a necessary but far from a sufficient condition for creating developmentally efficacious states.

⁷ It is difficult to support such a generalization with detailed case material in a short essay. For the important case of Brazil at least I developed such an argument in more detail elsewhere. See Kohli (2004), Chs. 4 and 5, esp. p. 182.