EXPORT LED DEVELOPMENT AND THE THIRD WORLD

BY

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THESIS

FOR THE

DEGREE OF BACHELOR OF ARTS

IN LIBERAL ARTS AND SCIENCES

COLLEGE OF LIBERAL ARTS AND SCIENCES

UNIVERSITY OF ILLINOIS

URBANA, ILLINOIS

1981
UNIVERSITY OF ILLINOIS

May 1981

THIS IS TO CERTIFY THAT THE THESIS PREPARED UNDER MY SUPERVISION BY

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ENTITLED EXPORT LED DEVELOPMENT AND THE THIRD WORLD

IS APPROVED BY ME AS FULFILLING THIS PART OF THE REQUIREMENTS FOR THE

DEGREE OF Bachelor of Arts in Political Science

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With sincere thanks to Professor George Xu, whose guidance and encouragement has served as a constant inspiration.
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I. INTRODUCTION

In the continual struggle for political, economic and social development various concrete strategies have risen above the barrage of development rhetoric to experience actual implementation in the third world. These strategies clearly have a historical evolution. They are responses to previous successes and failures in this field and will serve as a basis for future development plans. Therefore it is important to analyze development strategy, to ascertain its strong and weak points, its successes and failures, its consistencies and contradictions, in order to promote more effective and more appropriate strategies in the future. This paper shall analyze the export led development strategy which has been concretely utilised in certain developing countries since the early sixties and which enjoys a new degree of popularity among lesser and least developed countries today. It is for these later countries that this study possesses particular relevance. This work shall examine the historical evolution and the theoretical and policy implications of export led development (ELD), describe and analyze its actual implementation, perform a case study in light of the above information. It is hoped that a better understanding of the appropriate direction of future development can be obtained through this study.

II. EARLIER STRATEGIES OF DEVELOPMENT

Originally, development economics placed emphasis upon the development of raw material exporting sectors. These sectors were usually begun and expanded by foreign investors and firms. Through the exploitation of their "comparative advantage" in natural resources, it was
hoped that this emphasis would serve as an engine of development on
different levels. With time however, the deficiencies of this strategy
became all too apparent. Problems included: low income elasticities
of demand for many primary products, the development of synthetic
substitutes wherever possible by developed countries, the existence
of foreign enclaves with few linkages to the rest of the economy,
instability of primary products with respect to price and output, the
realisation of eventual exhaustion of supplies, balance of payment
difficulties, etc.... All of the above made many of the less developed
countries skeptical of reliance on primary commodities as a means to
long-run economic growth.\(^2\) More importantly, the raw material export
sector appeared to absorb "domestic capital and skill which could
otherwise have been directed into different activities from which
long term growth might be more reasonably expected."\(^3\) Industry in
particular seemed neglected if not discouraged. Thus, developing countries,
as soon as they were able, went to considerable lengths to stimulate the
development of import substitution manufacturing industries.\(^4\)

III. IMPORT SUBSTITUTION

The development strategy of import substitution place emphasis
on the internal economy. After WWII, seeking to reverse their poor
balance of payments position and their newly acquired perception of a
growing dependence—the developing nations implemented high protection
tariff walls, various foreign exchange controls, government spending on
infrastructure projects and direct investment in a number of industrial
enterprises, inducements to foreign capital investment and domestic
investment schemes.\(^5\) Through such measures, third world countries hoped
to increase domestic production and decrease exports, and thereby
attain a more balanced development and a lesser degree of dependence.
While these goals were reached (in some cases with spectacular success) in the early stages of import substitution, the short term nature of the implementation of import substitution created serious difficulties for these nations and showed the flaws of their strategy in later years. Soon, as plants achieved and surpassed capacity production, high capital and technological requirements (only achievable through further imports) and the need for outlets exceeding the size of domestic markets to exploit economies of scale, became apparent. These needs could not be met cheaply—and balance of payments problems returned. The cost of heavy protectionism was evident and began to stagnate underdeveloped economies in the late fifties.\textsuperscript{6} The strategy also discriminated against UDC exports and thus limited “the long run potential of import substitution based on industrialization.”\textsuperscript{7} When it came time to move into other markets, the third world products simply were not competitive.

Marxist analysis criticizes more the class orientation of the import substitution strategy than its short term implementation. They explain that import substitution focused on meeting bourgeois demands (luxuries) rather than those of the masses. Thus, foreign exchange saved by not importing was surpassed by foreign exchange spent for importation of basic inputs and capital goods, outflow of profits, and augmented desires for luxury goods. The results of import substitution within this perspective were: a limited industrialization, larger deficits and debt, growing regional inequalities and inadequate nutrition for a majority of the people.\textsuperscript{8} Even those solely interested in numbers could see that the new manufacturing sectors in UDCs were operating on too small a scale and "were earning their countries too little in terms of income, foreign exchange and employment."\textsuperscript{9} A new strategy was needed to move the third world from its stagnation.
IV. EXPORT LED DEVELOPMENT—THEORETICAL POINTS AND POLICIES

As a result of the import substitution failure in the early and mid sixties, once again third world development turned to the external economy. A number of countries implemented a strategy of export led development based on the production and export of manufactures. The new orthodoxy believed that exports, underemphasized in the past, able to benefit from scale economies derived from sales to world markets, must be encouraged with at least the same vigor with which import substituting industry was encouraged. Through the strategy these countries hoped to industrialize, acquire more skills and technology, increase employment, earn more foreign exchange to solve their balance of payments difficulties, and stimulated the process of capitalistic development in general. Political motives of certain nations to improve and integrate their countries relations with those of the developed world have also been cited.

The strategy assumes that manufactured exports have a more favorable impact than primary exports on economic growth "through more dynamic forward linkages such as developing better human skills and technology transfer. ELD is thus a historic answer to the original problem of development and a remedy or cure to difficulties resulting from p@sy strategies.

The strategy involves some standard policies. They include:

- adoption of exchange rate policies more favorable to exports, reduction of export taxes and import restrictions, incentives to foreign and domestic investment in export industries, simplification of administration procedures for exports and direct state investment in export industries.

V. DESCRIPTION OF ELD GROWTH

The implementation of ELD had a dramatic consequences for participating nations. The following is an overall view of the resulting situation. There has been a significant increase in manufactured exports
from the third world since 1960. Between 1970 and 1976 manufactured exports from the third world grew at an annual rate of 14%—more than twice as fast as the growth of manufacturing imports from the developed nations to the third world.\(^\text{16}\) It is important to note that as of recently, only a few underdeveloped countries utilized ELD to any significant degree. Even in 1975, primary products accounted for about 80% of the total exports from developing countries.\(^\text{17}\) The manufactured export expansion has occurred largely in a group of nations including Taiwan, S. Korea, Singapore, Hong Kong, Mexico, Brasil, Argentina and India. They together account for some 78% of all the manufactured exports coming from the third world.\(^\text{18}\) In some of these nations, manufactured exports dominate their export bill. Annual growth rates of individual countries in manufacturing exports have reached as high as 70% in S. Korea (from 1962 to 1970). Average annual growth of 20% or more have been maintained in Brasil, Taiwan, Hong Kong, Pakistan and Singapore.\(^\text{19}\) These striking results in a rather select group of nations facilitates study of the new exports and their effect on development.

A. Manufactured Export Processes

As the main tenet of the strategy, manufactured exports must be examined to gain a satisfactory understanding of ELD. The different processes involved possess distinct limitations and advantages. There are five basic processes: local raw materials processing, conversion of import substituting industry to exporting, labor-intensive final products exports, middle-stage industrial exports and capital-intensive goods production competing with developed country exports. Through local raw materials processing, developing nations look to redress the problem of foreign addition of a majority of the value of raw materials. While there are big profits to be made in theory, these exports face steep
protectionism in developed countries and have as a result enjoyed rather limited growth. The highly capital intensive nature of this work also makes it somewhat inappropriate in countries suffering from under-employment. 20

Attempts at conversion of import substituting industries to exporting have been the least successful of the five processes. This type of manufacturing tends to remain inefficient even after conversion due to years of protection. These exports also face steep anti-dumping tariffs in the developed world. 21

The new labor intensive final product exports benefit and suffer from the high degree of protectionism they receive in the industrial nations. This protectionism has given the developing nations a comparative advantage in their production through the fostering of inefficient developed country production. However, as this type of third world manufacturer grows, it is being met by new trade barriers in the industrialized world. 22 Tariffs against this type of production (unskilled labor intensive) are the fastest growing and most popular since they "protect" the poor of the developed world. 23

Middle-stage industrial exports refers to a segmentalization of multinational corporation industrial production in which a third world country provides cheap labor to perform specific operations on goods brought from and later returned to the developed world. Products included in this category are semiconductors, tuners, electronics, automobile parts, TV's, radios, typewriters, valves, etc.... It involves only a few or one intermediate stages of production and is in a sense solicited to the third world like a carrot on a stick and is thus referred to as "international subcontracting." Subcontracting operations usually specialize in use of low skilled labor on jobs not easily
mechanized. Even in a skill-intensive process, MNC's extract one portion of production that is labor-intensive and subcontract it. Through middle stage production, certain third world exports become part of a "complete organisational structure dominated by firms from advanced capitalist countries." These types of exports grew from a share of 6.4% in 1966 to 35.7% in 1973 of the total amount of US imports registered under items 806.30 and 807 which measure goods originating in the US and returning to the US for further production.

There are a number of reasons which explain the interest of third world nations in MNC's in middle stage production. From the MNC perspective, this process provides foreign exchange earnings in less developed countries at a time when these opportunities are "severely constrained by problems of international commodity markets and developed country trade barriers." Not only do third world countries offer incentives for location of this type of industry, but these products face small tariffs in the DC countries, since they return incomplete after beginning in the developed nation. Production costs are minimized due to low labor wages and improved transportation and communication opportunities. Competition among industrial countries concerning the reduction of costs has caused a snow-ball ing effect of entrance into this field. MNC's also can reduce the risk of disruption of component supplies through international subcontracting by spreading different segments of production in various nations.

The third world also believes there are many benefits to be derived from this process. Aside from the basic desire to increase employment, they see advantages in possible transfers of technology and related skills. Since this process involves, and in fact necessitates, the participation of developed country MNC's, they hoped the new
industry will stimulate their economies monetarily and through a number of industrial world links. For many third world nations without great reserves of natural resources, this process affords their only opportunity to utilise the ELD strategy. Thus, because of its many perceived benefits and potential growth, middle stage production has become a vital part of the ELD strategy.

Some of the larger semi-industrialized countries have attempted to compete directly with developed countries in the production of capital goods such as autos, heavy machinery, etc.... This type of manufacturing will be more closely examined in the case study of Brasil.

B. Nations Involved

A relatively small number of third world countries comprise a great majority of third world industrial exports and overall production. This group of more or less nine nations can be divided into two fairly distinct groups. Group A countries have small internal markets and relatively undeveloped industrial infrastructures. Yet, they specialize in non-traditional manufactures and "successfully compete against the industrial world in developed country markets." Group B consists of countries that have "significant natural resources and appear to have a base for successfully exporting a broad range of manufactures--yet their exports to the developed world are concentrated on those goods that are connected to their natural resource endowment and that represent a declining percentage of total imports to the developed nations. Group B contains Mexico, Brazil, Argentina and India. Group A contains S. Korea, Taiwan, Singapore, Hong Kong and Malaysia. The process of international subcontracting (non-traditional, labor-intensive products) are most popular in group A countries--mostly because many other export opportunities are not feasible for them. Type 3 countries tend to export raw materials (finished), capital goods, import substitution conversion products
### TABLE 1

THE TOP EIGHT THIRD WORLD EXPORTERS OF MANUFACTURES TO 21 DEVELOPED CAPITALIST COUNTRIES IN 1973.

<table>
<thead>
<tr>
<th>Country</th>
<th>Value (US Millions)</th>
<th>% of Total Third World Exports to 21 Developed Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>3260</td>
<td>23%</td>
</tr>
<tr>
<td>S. Korea</td>
<td>2234</td>
<td>15.7%</td>
</tr>
<tr>
<td>Mexico</td>
<td>1250</td>
<td>8.9%</td>
</tr>
<tr>
<td>Brasil</td>
<td>1139</td>
<td>8.0%</td>
</tr>
<tr>
<td>India</td>
<td>872</td>
<td>6.1%</td>
</tr>
<tr>
<td>Singapore</td>
<td>840</td>
<td>5.9%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>560</td>
<td>3.9%</td>
</tr>
<tr>
<td>Argentina</td>
<td>443</td>
<td>3.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10608</strong></td>
<td><strong>74.7%</strong></td>
</tr>
</tbody>
</table>


### TABLE 2

AVERAGE ANNUAL GROWTH RATES OF TYPE A COUNTRIES FROM 1960 TO 1970

<table>
<thead>
<tr>
<th>Country</th>
<th>Average Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong (UK colony)</td>
<td>16%</td>
</tr>
<tr>
<td>S. Korea</td>
<td>8.5%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>9.2%</td>
</tr>
<tr>
<td>Singapore</td>
<td>8.8%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

**SOURCE:** World Development Report, 1980.
and traditional labor intensive products. The nations mentioned are distinguishable in terms of internal resource endowment, independent productive capacity, degree of participation in export manufacturing and the types of manufactures utilised. Nevertheless, all these countries hold a number of factors very much in common. They are all participants in the ELD strategy—all have a significant outward orientation to their development. They all enjoy or suffer from a higher degree of interaction with the developed capitalist world. All enjoy high rates of economic growth—even higher than the industrialised world. Finally, despite these high rates of economic growth, all continue to possess characteristics of socio-economic underdevelopment such as unequal income distribution and the existence of absolute poverty among some sectors of the population. While this paper shall analyse the effects of the new export led growth first in terms of Type A and then in terms of Type 3 countries, there is a great similarity in the benefits and disadvantages to both groups as members of one particular and distinct development strategy. Despite clear cut differences within the ELD strategy, an evaluation can be made for all its participants, and a case study of one country can have significance for any country involved or hoping to become involved in ELD.

VI. MARXIST EVALUATION

Before beginning the analysis of the effects of ELD implementation the Marxist critique of this strategy should be presented. The Marxist criticism of ELD, though largely rhetorical, is an important and perspective which cannot easily be integrated into a standard analysis (therefore it is presented here in its entirety). The Marxist view sees the new export manufacturing industry as "a new form of international
capitalist domination, not a program for establishing indigenous capitalist development or for meeting the needs of the third world workers and peasants. 31 The Marxists hold as an ideal for third world nations the concept of "the internally articulated self-expanding economy." In this model the needs of the majority of the people (workers and peasants) "create effective demand calling forth investment, development of appropriate technology, domestic resource use and production." 32 Domestic consumption completes the production consumption cycle and provides the basis for a new cycle in response to the needs of workers and peasants generating employment, technology and growth as part of a self-generating process.

In contrast to this ideal of "domestic convergence," Marxists view today's economies participating in ELD industrialization as those of "dynamic divergence." They explain these ELD type economies in the following scenario. Market demand comes almost exclusively from the upper and small middle classes and is heavily orientated toward non-domestic products. Any rise in the third world demand leads to an increase in imports rather than in domestic production. With small incomes, workers and peasants are unable to translate their needs into effective demand. Thus, domestic production is largely for export. Investment technology and resource use developed in response to demand in developed countries and tend to be unrelated to the needs of the majority of people living in export manufacturing nations. In this perspective, goods produced domestically are not consumed domestically and goods consumed are not produced domestically. The irony exists that "both imports and exports can increase without creating the basis for a self-generating economic expansion." 33 This type of export led development causes the following negative effects: 1) There are very few linkages to the entire economy in
spite of the increase in manufactures, 2) The needs of the poor and their fulfillment are virtually ignored and remain unaffected, 3) High rates of growth lead to no significant development, 4) The domestic growth and independence of the domestic bourgeoisie is stunted through the involvement of powerful MNC's and the third world competition for certain industries, 5) The creation of a new international division of labor, 6) Levels of dependence and exploitation by MNC's and the developed world are increasing as third world nation are becoming increasingly involved in the world capitalist system. To the Marxists, ELD is a deficient strategy for achieving capitalist development (or any development). They see the failures of the third world economies participation in ELD and the rise of the third world incentive competition as embodiments of the capitalistic system's contradictions. For them, ELD only "maintains poverty and under development and reinforces reliance on the external market, thus strengthening internal disarticulation and dependence." 

VII. EFFECTS OF ELD IMPLEMENTATION

A number of criticisms both positive and negative have arisen in evaluations of ELD strategy in addition to those of the Marxists. The following is a summary of the effects of ELD, first with regard to Type A countries and then to Type B countries.

A. Effects on Type A Countries

The positive effects resulting from this strategy's implementation are clear cut, verifiable and very important. First, manufacturing for exports in third world countries increases employment. For example, while enjoying a manufacturing exports boom, Korea enjoyed from 1964 to 1970 a rise of non-farm employment of 1.6 million and a decline in the unemployment rate from 7.7% to 4.5%. In Taiwan, during its spectacular growth in this field, the industrial labor absorption rate doubled to
over 6% annually and by the early 1970's, Taiwan's surplus labor supply had disappeared as unemployment dropped from 5.3% to 1.7%.\textsuperscript{35}

Second, the dramatic increase in manufacturing exports stimulated the impressive rates of growth achieved by Type A nations during the 1960's and 1970's. In most cases export manufactures were the leading factor in this growth—which speaks well of ELD. Thirdly, in addition to raising general employment levels, ELD has created a semi-skilled industrial work force in many countries. This development raises the possibility of some type of labor organization in the third world.\textsuperscript{36}

The observed or perceived negative effects of ELD on Type A countries are much more numerous, complex and less quantifiable. These criticisms have been broken down into two categories: long-run contradictions not apparent in the early years of ELD strategy have been perceived in recent times in Type A countries. These contradictions or counterproductive effects are embodied most clearly in the competitive system of incentives which has developed among Type A nations. A great variety of incentives are used as a means of attracting MNC technology and foreign owned production to a particular third world nation. The incentives include a lowering of minimum wages, investment subsidies, bonus exchange rates, tariff advantages, the use of industrial enclaves, tax rate reductions or periods of tax moratoriums, certain freedoms of operation, etc....\textsuperscript{37}

While these incentives are effective in obtaining labor intensive industry of foreign firms, they have placed Type A nations in direct and counterproductive competition, resulting in several unfortunate consequences.\textsuperscript{38}

First, there is the problem of employment. Employment gains achieved in countries such as Taiwan and Korea are being stagnated or worsened as MNCs relocate older operations or locate new ones in other third world nations offering better incentives. These semi-industrialised nations possess
irreversibly higher minimum wages due to their prosperity that make labor intensive operations in these countries less profitable than in nations just beginning in this field. The incredibly low wages offered in countries such as El Salvador, Indonesia and Thailand have a limiting effect on the benefits to be derived from the attraction of this industry. The net effect is a reduction in jobs in semi-industrialised countries and the existence of more “marginal” jobs in new Type A countries.  

A corresponding reduction in production and capital accumulation in the Type A semi-industrialised nations is occurring. The rates of merchandise export growth for the 1970’s of Taiwan, 9.3% and Hong Kong 4.8% are considerably lower than the 1960 rates of 23.7% and 12.7% respectively. Countries new in this field such as Thailand, Indonesia and Singapore show the opposite trend in manufacturing exports growth rates.  

The third world competition through incentives has aggravated the balance of payments and debt problems experienced in Type A countries. Many of the previously outlined incentives i.e. subsidies, bonus exchange rates, tariff and tax advantages, only serve to weaken these nation’s often precarious financial positions. They also resulted in the irony of capital scarce nations offering funds to capital rich MNCs.  

Certain social costs of the competition for export manufacturing particularly of middle stage production are becoming evident with time such as the destruction of the environment and “sweat shop” production methods. Though a non-quantifiable effect, one can only wonder how “development” can be advanced in situations where workers are forced to perform under inhumane and destructive conditions.  

Other results of the incentive war include a reduction in bargaining administrative and political power of third world governments.
Participation in the ELD strategy by Type A countries clearly indicates their increased interaction with MNCs and the developed world and with the world capitalist system. However to call this higher degree of interaction dependence would be unreasonable. One must evaluate definitive consequences of this involvement in terms of negative and positive consequences or effects on development.

One of the clear disadvantages of a heavier interaction with the international capitalistic system is a reliance on the increasingly instable and declining markets in developed countries. The world economy has shown itself to be alternatively volatile and sluggish over the last decade. A wave of three serious recessions and a continual stagflation with growth rates at two to four percent have been witnessed over the last ten years. Third world manufactures have shown themselves to be quite responsive to downturns in the world economy. During the 1974 to 1975 world recession, the annual growth rates of third world manufactures dropped from 9.5% in 1973 to 3% in 1975. This type of negative consequence of ELD indicates a non-beneficial reliance or dependence on the world capitalistic system (composed of the fourteen OECD countries). In this system, third world countries pursuing export led industrialization will find it increasingly difficult to maintain overall production and export levels and will experience limited earnings and growth from their activities.

The developing world has increasingly found itself faced with protective trade barriers in the developed world. Almost every manufacturing export process utilized by the third world has been hit in some way by tariffs with the exception of middle stage production goods. This in part explains the popularity of these internationally subcontracted goods. The end result of the tariff structure is a dependence in which
export manufacturing countries 1) are being encouraged to become in the most criticized export manufacturing process (middle stage production) and 2) are involved in a strategy where the more they produce the more they are punished by developed country trade restrictions. 45

The increased interaction in the world economy has led to certain losses of national power because of an inability to deal with MNCs on an administrative level. There are virtually no international rules in this new field. This allows the use of restrictive business practices against third world countries. Studies have shown that, for example, small countries must pay more for imported machinery, iron steel and chemicals than do large ones (Haftauer and O'Neill 1972 and Yeats 1976 and 1978). Outside of international exploitation, third world nations simply are overwhelmed by the organizational abilities of MNCs. Their governments are often ill-informed and limited as bargainers, negotiators and purchasers. Underdeveloped nations also do not adapt as well as MNCs to new regulations laws and tariffs. Their administrative deficiencies have caused Type A countries to be increasingly dependent in the sense that MNC's tend to make or influence decisions for them that these nations cannot or do not make for themselves. 46

Finally, through integration in the capitalist economy, via ELD, Type A countries have lost much control of the direction of their economies and have therefore acquired a higher degree of dependence. Beyond the Marxist claim that investment, technology, and resource use developed in response to demand in developed nations, the production role of third world nations denotes a dependent relationship in itself. Even though a majority of manufactured export are produced under joint ventures or independent third world firms, in a great majority of the cases, MNCs maintain complete control over the entire process.(research, transport
design, marketing, etc...) The result is that independent third world firms can be prevented by MNCs from producing for the local market or from direct exporting. Third world firms are dependent on DC firms for inputs and access to markets. Lacking research and development experience, local firms use technology chosen for them by MNC's and depend on them for service and technological assistance. This process indicates a dependent industrialization under ELD strategy. 47

B. Effects on Type B Countries

Many of the effects of ELD on Type B countries are similar to those outlined for Type A countries. The following section shall stress consequences particular relevance to the broader based and more endowed Type B countries, simply mentioning items of significance already discussed. These effects are not as drastic as those discussed for Type A nations since manufactured exports occupy a smaller percentage of total exports and total national product in Type B countries than in Type A countries. The positive effects deriving from ELD in Type B countries include more employment, the creation of a skilled working class, the introduction of new technologies and significant stimulation of national growth. The growth experienced by these countries has had a much heavier capital intensive nature than that experienced by Type A nations. This has meant more significant gains in obtaining technology and human skills.

These positive effects such as high rates of growth and absolute employment increases are well documented as in the case of Type A countries, and explain the interest of other third world nations in ELD. However, a detailed analysis of industrial employment and growth in the studied nations will not significantly aid the understanding of ELD as a whole.

A number of negative consequences have been noted in these
nações under ELD. These effects have been divided into three groups, long-run contradictions, dependency and marxist orientated criticisms. Type B nations have seen certain problems develop after years of participation in ELD. The tendency has developed among these nations for imports to grow faster than exports over time. For example, Brasil and Mexico held a 5,310 million and 896 million dollar balance of payments deficits in 1978. This phenomenon can be explained by the heavy capital import requirements to start and maintain their export industries such as raw materials processing and capital goods production. Large external debt has also surfaced as a long term problem in Type B countries. Brasil, Mexico, India and Argentina held respective external public debts of 29, 26, 15 and 7 billion dollars in 1978. In all of these nations external debt represented a significant percentage of their GNP and value of exports. Debt has grown so large that in some cases it is not clear how this money can ever be repaid. Thus, debt has become a serious problem both for the indebted ELD nations and for the international monetary system.

The type B countries have also seen the long term development of protectionism in the industrial world directed squarely at their manufactured exports. Goods such as processed raw materials, textiles, clothing footwear, and steel face heavy tariffs which limit opportunities for expansion and modest rates of growth. These Type B nations now semi-industrialised are those most constrained by the growth of protectionism.

Many of the internal government sponsored programs encouraging participation in manufactured exports have had counter productive effects. In these larger and more diverse nations the criticism lies in stimulation of export manufacturing itself, but in the cost of actions. Many feel that the success in
exports has meant the neglect of more vital sectors such as agriculture which could have contributed much more to total economic development. The degree of participation in ELD seems to have been excessive.\textsuperscript{52}

Type B countries utilising ELD strategy have experienced a largely capital intensive industrial development—much more so than in Type A countries. The production of capital intensive goods for export holds rather limited benefits, concentrated in one sector. By definition, this production uses relatively small units of labor. It involves such a small percentage of the population that it has little impact on the overall economy.\textsuperscript{53}

ELD has been criticised in Type B nations for its incrementation of dependence. Many of the arguments are similar to those given for Type A countries. For example, Type B countries are relying more on the sluggish and volatile world economy. This reliance is worsening opportunities for expansion and is causing certain distortions in their internal economies. Many of these countries have seen the growth of premature affluent society which conforms to the production patterns of the MNC’s (i.e. the growth of the passenger car industry).\textsuperscript{54}

The growth of debt and trade deficits can also be seen as increasing dependence. In the process of “opening up” to the capitalist world, indigenous industry has been ignored or distorted at the expense of government favored MNCs. This effect is particularly counterproductive in these Type B nations which have great domestic production potential. Continued dominance of foreign firms means a continual reliance on uncontrollable external forces.

Marxist criticism of ELD strategy in Type B countries is also similar to that outlined for Type A countries. Primarily, they see that this type of strategy ignores the basic needs of the majority of the people
and this fails to tap the tremendous potential available in these countries for a meaningful development. They also note the contradiction of a capitalist system which espouses a development through the export of manufactures yet which penalises countries successful in this strategy with a wave of harmful trade restrictions.55

VIII. EVALUATION

It is necessary here to make an evaluation of the ELD strategy based on the analysis presented thus far. ELD was for a time a somewhat viable development strategy. It was a reasonable response to the problems inherited from import substitution in participating countries. The growth and prosperity experienced by a few nations during the 1960's and 1970's were real and contributed to a significant if not perfect development. The strategy however, has lost its relevancy and usefulness as a true promoter of development because of the limit to absolute export growth in the modern world economy, and because of the long term contradictions of ELD strategy experienced even by its most successful practitioners. As previously noted, the world export market is not a utopia of unlimited growth, but rather a place of stiff competition and steep trade restrictions. The third world is now experiencing the reduction of benefits from ELD as poorer nations compete for limited export opportunities with costly incentives. They also are realizing that all the "comparative advantage" in the world such as dirt cheap labor, high productivity, no environmental regulations, etc...will not allow them to increase exports if the developed nations wish to put up a protective wall of tariffs against their products. Unlike the 1960's, today's third world nation is required to give up a great deal, perhaps too much, in return for very little, perhaps too little.

The analysis of ELD has also shown that it is no cure-all strategy or a permanent solution to all development problems. The long run
contradictions experienced by Type A and B nations such as balance of payments difficulties, debt, internal distortions, sectoral neglect, slowing of production, dependency, etc... show that ELD can create problems as well as solve them. The use of exports in development must be implemented in a careful and prudent way. Overreliance on the strategy as a quick easy solution has resulted in the above consequences—even in times more favorable to export growth. Today, more than ever, a development led by exports seems inappropriate. Exports of manufactures can and should play an important role in future development, however, to make it the main tenet of development strategy would seem to be a grave error.

Many of the lessons learned (or perhaps only observed) from import substitution strategy and its ultimate failure run parallel to the experience of ELD. Its largest flaw was not the theoretical principle behind the strategy but its short term and excessive implementation, seeking a quick and easy answer to a complex and long term problem.

IX. CASE STUDY OF BRAZIL

The following case study of Brasilian development from 1964 to 1974 will provide a deeper understanding of ELD strategy. It will take an in depth look at Brasilian involvement with ELD. Brasil in the early and mid-sixties through the mid-seventies was one of the nations which reincorporated a significant external orientation in its development strategy. The new external orientation designed to increase exports was only one of many development policies utilized in Brasil's overall development strategy. It was however, the most important and distinctive item. Since Brasil did not rely exclusively on exports for her development, as did many Type A countries, all Brasilian development results cannot be traced to ELD strategy alone. Yet, a significant number of these results can be directly or indirectly tied to the new external orientation due to its
primary position in the policies employed from 1964 to 1974. This case study shall first attempt to place Brasil in a historical, political and economic context to allow a better understanding of her development. The policies utilized over the ten year period shall be described with particular emphasis on foreign trade policies. Brasil's development response to these policies' will be analyzed and evaluated particularly in terms of those sectors affected by the new external orientation. Lastly, the findings will be related to the earlier analysis of ELD and to other third world nations interested in ELD.

A. Brasil in Perspective

Brasil is the largest and most populous country in South America. Her 3,095 million square miles cover 40% of the continent and her population has passed 107 million. There are three basic regions. The northeast is composed mostly of small town and cities and rural areas of subsistence agriculture. It occupies one-fifth of Brasil's land mass and contains one-third of the population. The vast western interior occupies two-thirds of the land mass and contains only ten percent of the population. It remains relatively unexplored, uninhabited and undeveloped. The southern region is the one part of Brasil that materially contributes to the substance of the economy. Covering 18% of Brasil's land mass, it holds sixty percent of her population. The south contains the most productive agricultural lands and the large coastal cities whose factories have generated the so called "Brasillian Miracle". The GNP as of 1978 was proportioned among sectors as follows: 33% from industry, 20% from business and finance, 29% from services and 18% from agriculture. In standard western terms, about 10% of the population occupy the middle and upper classes, less than one-third represent the working class (which is roughly evenly
distributed between agriculture and industry or services). The remainder, some 60%, are considered marginals or "people who barely survive in the slums that surround the cities or who make a substandard living from the land in the northeast." ⁵⁶

Since April of 1964, when military leaders ousted elected President Goulart, Brasil has been ruled by a collective military dictatorship. In '64 the military choose Humberto Castello Branco, army chief of staff, to finish Goulart's term. A figurehead "Congress" later extended this term in 1965. In 1966 Arthur de Costa Silva, a former army marshall, was elected president by this same "Congress". Silva suffered a stroke in 1969 and was directly replaced by the military leaders. They choose General Emilio Medici as president, who served until '74 when General Ernesto Geisel succeeded him. ⁵⁷ The economy was run by civilian technocrats from different sectors of the government. Roberto Campos, secretary of the economic planning department, was the director of economic policies from '64 to '67. Finance minister Delfin Netto was the leading economic figure during the '67 to '74 "boom" years of the economy. ⁵⁸

B. Economic History

A survey of Brasil's economic development history reveals an economy that has consistently emphasised industry using import substitution tactics or similar strategies. Measures referred to today as promoting import substitution were implemented as early as the 1890's. In the pre-WWII years, industry provided for a good 10% of the work force. The pre-WWII industry sector was "relatively backward but diversified in consumer and capital goods and intermediate products." ⁵⁹ Although coffee dominated the export sector, it only accounted for 10% of the income from exports. This low return on primary commodities experienced by Brazil motivated her as it did so many other nations to implement a much more serious
industrial import substitution policy after WWII. 60

Brasil's experience with import substitution was fairly typical of that of most third world nations. After enjoying rapid increases in domestic production, and good growth in the policy's early years, expansion slowed after 1960 as further import substitution encountered difficulties with the high capital and technological requirements of capital and intermediate goods and the need for external outlets to exploit economies of scale. In 1966 it was estimated that the cost of protectionism from import substitution was 9.5% of the GNP in Brasil. 61 The military takeover in 1964 was largely in response to economic pressure caused by the failure of import substitution. At the time of the coup, Brasil was simultaneously suffering from inflation of 150%, high unemployment, and virtually no growth. 62 The Branco-Campos years of 1964 to 1967 have basically described as those of stabilization. These and later policies will be discussed more fully in the next section. 1967 to 1974 are the years of the economic boom or Brasilian Miracle, under the policies of Finance minister Delfin Netto. During the period Brasil enjoyed growth rates of 10.1% per year, the highest in the world. 63 This tremendous growth was slowed by the 1973-1974 oil crisis as Brasil was a heavy importer of oil. The years to follow showed a considerably slower yet substantial growth.

C. Description of Post 1964 Development Policies

The two most outstanding features of the implementation of the Brasilian development plan were heavy government involvement and largely technocratic economic management. The Brasilian government in this time came to account for an extremely large portion of GNP, became the leading investor in its own development, and implemented a number of policies and rules and restrictions on almost every sector of the economy.
The technocrats working under the military regime had virtually a free hand in implementing their policies. The control of the economy and direction given to it by the government and its technocrats are testimony to the impact of the policies in the country, described below. This heavy involvement signifies that it was the conscious strategy and implementation of the Brazilian government which influenced her dramatic growth rather than any general upturn in the world economy or favorable cycle of the Brazilian economy. These later explanations are largely non-verifiable and do not significantly contribute to the study of development progress in Brasil.

The years of 1964 to 1967 are referred to as the stabilization years in which classic conservative economic policies were used to put the economy on a firm base. The policies instituted were designed to limit inflation, eliminate distortion in pricing and the allocation of resources, and increase savings. The following were the concrete stabilization policies: 1) introduction of indexing, 2) devaluation of the Cruzeiro (the exchange rate in 1974 was approximately 1 dollar US=7 Cruzeiros), 3) tightening of the money supply and credit, 4) curtailment of government expenditures and the budget deficit, 5) improved and increased tax revenue and collection, 6) improved credit mechanisms and, 7) introduction of forced savings.64

Indexing is a system where "the principal and interest on debt instruments were readily readjusted in accordance with the rate of inflation."65 It proved to be an effective way of dealing with the undesirable effects of inflation. The stiff monetary policies did reduce inflation from the 150% rate in 1964 to a 25% rate in 1967.66 With reduced expenditures, increased revenue, less need for subsidies, and forced savings, the government was in a much better position to finance the ensuing boom.

From 1967 to 1974 the Brazilian government initiated a number
of new policies. The more internally orientated policies shall be consid-
ered first and then the external or foreign trade policies. The later is
of more interest in the study of ELD. In 1967 the government began to
stimulate the economy in no uncertain terms, and instituted policies favor-
able to an atmosphere of growth. These policies included 1) planned stim-
ulation of investment by the government and subsidized capital investment,
2) intentional borrowing from foreign markets to finance development, 3) im-
proved public finance—where the government forced more domestic saving
and received more revenue, 4) improved banking institutions, 5) continued
monetary correction to control inflation and, 6) greater integration into
international markets. 67

It was a complex economic strategy very much in the interventionist
tradition as opposed to the free enterprise tradition. Heavy emphasis was
placed on industrialisation and manufactured exports with little concern
for agriculture exports and none for agricultural domestic consumption. 68

The new emphasis on integration into international markets embodied
several specific policies. They included: 1) a trotting peg exchange rate—
a policy of frequent mini-devaluations of the cruzeiro 2) abolition of state
export taxes and licensing—which were used to keep domestic prices down
3) simplification of administrative procedures for exporters 4) tax incen-
tives and subsidised credit for domestic forms—which had been intentionally
ignored previously, 5) reduced rates of import protection, and 6) the provi-
sion of a better import climate stemming from the control of inflation and
the improvements in financial and institutional systems previously mention-
ed. 69

One notices that exports were considerably favored in the overall
development strategy implemented by Brazil from 1967 to 1974. While they
are not the only feature of the plan they are a critical element perhaps
the primary element. While certain critics consider the overall foreign borrowing to finance development undertaken during this time to be the Brasilian plan's primary element, the policy emphasis given to exports is undeniable. Brasil is therefore a viable example of implementation of ELI and can be used as an evaluation of this strategy.

Results of the Development

The following is largely a statistical look at the Brasilian economic response to the above outlined policies. The Brasilian Miracle is measured by a variety of indicators and in a variety of ways which will later be evaluated in terms of development. Over the study period, Brasil enjoyed possibly the best overall economic growth of any nation in the world. She has grown to the point of being the tenth largest economy in the world. The real GNP tripled from 1968 to 1974 averaged 10.1% (see table 3). External trade grew at a rate substantially higher than the growth of the economy as a whole. The average growth rate of exports was 29.1% from 1969 to 1974 (see table 4). Yet, the percentage of exports of GNP remained relatively small (see table 5). The balance of payments situation worsened over the ten years as imports began to grow at a faster rate than exports (see table 4) and occupied a larger percentage of GNP than did exports (see table 4). The growth of imports was heavily concentrated in the industrial sector, accounting for some 80% of total imports with capital goods accounting for one-half of this share. The resulting trade deficit grew from a 33 million dollar surplus to a 4.68 billion dollar deficit in 1974 (see table 4). This trade deficit problem has continued to grow into the present. The 1970 trade deficit reached one billion and could double in 1980.

Total external debt has consistently increased over the period (see table 6). Debt problems have become particularly acute in the years
TABLE 3

YEARNLY BRAZILIAN RATES OF GDP GROWTH AND PER CAPITA GDP

<table>
<thead>
<tr>
<th>Years</th>
<th>Real GDP</th>
<th>% Increase</th>
<th>Per Capita GDP</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>62-67*</td>
<td>3.7</td>
<td>1.3</td>
<td>8.1</td>
<td>6.8</td>
</tr>
<tr>
<td>1968</td>
<td>11.2</td>
<td>9.0</td>
<td>8.8</td>
<td>5.8</td>
</tr>
<tr>
<td>1969</td>
<td>8.8</td>
<td>13.3</td>
<td>10.2</td>
<td>10.8</td>
</tr>
<tr>
<td>1970</td>
<td>11.7</td>
<td>14.0</td>
<td>8.7</td>
<td>6.8</td>
</tr>
<tr>
<td>1971</td>
<td>9.8</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

"yearly average"

SOURCE: Calculated from the "Conjuntura Economica."

TABLE 4

BRAZIL'S FOREIGN ECONOMIC POSITION (US BILLIONS)

<table>
<thead>
<tr>
<th>Years</th>
<th>Exports</th>
<th>Imports</th>
<th>Balance of Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>65-69*</td>
<td>1.84</td>
<td>1.51</td>
<td>.33</td>
</tr>
<tr>
<td>1969</td>
<td>2.31</td>
<td>1.99</td>
<td>.32</td>
</tr>
<tr>
<td>1970</td>
<td>2.74</td>
<td>1.99</td>
<td>.23</td>
</tr>
<tr>
<td>1971</td>
<td>2.9</td>
<td>3.25</td>
<td>-.35</td>
</tr>
<tr>
<td>1972</td>
<td>3.99</td>
<td>4.23</td>
<td>-.24</td>
</tr>
<tr>
<td>1973</td>
<td>6.2</td>
<td>6.19</td>
<td>.01</td>
</tr>
<tr>
<td>1974</td>
<td>7.95</td>
<td>12.63</td>
<td>-4.68</td>
</tr>
</tbody>
</table>

"yearly average"

SOURCE: Boletim do Banco Central do Brasil.
following the boom. The 47 billion dollar debt equalled 17% of GNP in 1973 it reached 25% in 1978. Accordingly, debt service and debt service as a percentage of export value have increased. The later from .3¢ to .49 in 1968 to .75 (see table 6)

Brasil enjoyed significant growth in manufactured exports. The annual rate of growth of 38.5% from 1966 to 1973 was only surpassed by a few southeast Asian countries. Semi-manufactured and manufactured items increased their share of total exports from 17.5% average over 1964 to 1967 to 37.5% in 1975 (see table 7). Yet, at the end of all this growth manufactured exports account for only a 5% share of GNP and they only represent a 14% share of the industrial sector GNP.

The agriculture sector also grew during this time. Over the period Brasil experienced a 5.3% annual average growth in this area.

Government expenditures at all levels have grown from 17.1% of GNP in 1947 to 37.0% in 1973. Of the fifty large banks, state banks accounted for about 56% of the total deposits and about 65% of the loans to the private sector in 1974. This trend continued until 1979 when it was estimated that 70% of the fixed investment in Brasil was undertaken by the state.

From 1964 to 1973 inflation steadily decreased in Brasil from a high of 84.5% in 1964 to a low of 15.5% in 1973. With the impact of the oil embargo, inflation jumped to 35.5% in 1974. (see table 9)

One must summary conclude that while Brasil has experienced tremendous growth over the 1964 to 1974 period, some disturbing fiscal indicators began to arise late in the period. The data on manufactured exports supports the earlier observation that the emphasised external orientation on international markets was only one of many policies in a complex development strategy. Manufactured exports did not appear to
### TABLE 5

**Brazil's Exports and Imports as a Percentage of GNP**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Import/GNP</td>
<td>5.4</td>
<td>6.0</td>
<td>7.0</td>
<td>8.0</td>
<td>9.0</td>
<td>14.0</td>
</tr>
</tbody>
</table>

**Source:** Anuário Estatístico.

### TABLE 6

**External Brazilian Debt and Debt Service as a % of Export Value 1968-1974 (US Millions)**

<table>
<thead>
<tr>
<th>Year</th>
<th>'68</th>
<th>'69</th>
<th>'70</th>
<th>'71</th>
<th>'72</th>
<th>'73</th>
<th>'74</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External Debt</td>
<td>3,780</td>
<td>4,403</td>
<td>5,295</td>
<td>6,622</td>
<td>9,521</td>
<td>12,572</td>
<td>17,166</td>
</tr>
<tr>
<td>Debt Service</td>
<td>.34%</td>
<td>30%</td>
<td>35%</td>
<td>41%</td>
<td>42%</td>
<td>41%</td>
<td>41%</td>
</tr>
</tbody>
</table>

**Source:** Boletim do Banco do Brasil.

### TABLE 7

**Brazilian Exports: Semi-Manufactured and Manufactured 1964-1974 (US Millions)**

<table>
<thead>
<tr>
<th>Year</th>
<th>'64</th>
<th>'65</th>
<th>'66</th>
<th>'67</th>
<th>'68</th>
<th>'69</th>
<th>'70</th>
<th>'71</th>
<th>'72</th>
<th>'73</th>
<th>'74</th>
</tr>
</thead>
<tbody>
<tr>
<td>Semi-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufactured</td>
<td>89</td>
<td>130</td>
<td>152</td>
<td>196</td>
<td>203</td>
<td>284</td>
<td>416</td>
<td>581</td>
<td>912</td>
<td>1465</td>
<td>2332</td>
</tr>
<tr>
<td>Semi-</td>
<td>115</td>
<td>154</td>
<td>141</td>
<td>147</td>
<td>178</td>
<td>211</td>
<td>249</td>
<td>241</td>
<td>310</td>
<td>476</td>
<td>631</td>
</tr>
</tbody>
</table>

**Source:** Central Bank of Brasil.
TABLE 8

ANNUAL RATES OF GROWTH OF BRAZILIAN AGRICULTURE

<table>
<thead>
<tr>
<th></th>
<th>'62-67</th>
<th>'68</th>
<th>'69</th>
<th>'70</th>
<th>'71</th>
<th>'72</th>
<th>'73</th>
<th>'74</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture growth(%)</td>
<td>4.0</td>
<td>1.5</td>
<td>6.0</td>
<td>5.6</td>
<td>12.2</td>
<td>4.1</td>
<td>3.5</td>
<td>8.5</td>
</tr>
</tbody>
</table>

SOURCE: Conjuntura Economica.

TABLE 9

BRAZILIAN RATES OF INFLATION 1964-74

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Inflation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>91.9%</td>
</tr>
<tr>
<td>1965</td>
<td>34.5%</td>
</tr>
<tr>
<td>1966</td>
<td>38.2%</td>
</tr>
<tr>
<td>1967</td>
<td>25.5%</td>
</tr>
<tr>
<td>1968</td>
<td>20.1%</td>
</tr>
<tr>
<td>1969</td>
<td>19.3%</td>
</tr>
<tr>
<td>1970</td>
<td>19.5%</td>
</tr>
<tr>
<td>1971</td>
<td>15.7%</td>
</tr>
<tr>
<td>1972</td>
<td>15.5%</td>
</tr>
<tr>
<td>1973</td>
<td>15.1%</td>
</tr>
<tr>
<td>1974</td>
<td>34.5%</td>
</tr>
</tbody>
</table>

SOURCE: Conjuntura Economica.
clearly lead the economy, but nevertheless experienced substantial growth involved in some of the most disturbing aspects of the development. In combination with ELD, on which this paper focuses, Brasil implemented a policy that many have described as "debt-led growth" (DLG)—referring to the massive external borrowing used to finance largely internal development. The existence of this seemingly alternative strategy does not undermine the significance of this study. While most of the money borrowed was not used with the direct intent of increasing exports, it did cause many of the same end results. The debt was used to pay for the expensive capital imports (accounting for 80% of total imports) and directed to finance the growth of capital intensive industries controlled by or fitting into MNC production patterns. In other words, DLG was essentially an externally orientated strategy which caused a reliance on the external capitalistic system and which brought many of the effects for which ELD has been criticised. One should consider the following facts. Foreign loans taken by Brasil increased from an average of 604 million from 1965 to 1969 to 6.6 billion in 1973. MNCs do appear to dominate Brasil's economy. In response to one of the most pro-MNC positions in the third world, foreign firms have come to control as much as one-half of all Brasilian industry. In an economy described as one of "associated dependence", where there is a high reliance of foreign technology and capital, foreign companies account for one-half of the national export and dominate certain whole industries. Although DLG is an intentional strategy attempting to focus on the internal economy, it has brought an external interaction in its utilization in Brasil just as ELD has done there and in other nations (This paper shall continue to distinguish between ELD and DLG and focus on ELD and its effects). The type of development which occurred in Brasil, though not entirely based on ELD strategy, is relevant as a study of the effects
of an outward orientation in development and of the export led development strategy in particular.

E. Evaluation of Development in Brasil

Many have considered the phenomenal rates of growth experienced by Brasil over the study period to be sufficient evidence of substantial development progress. However, one can examine the Brazilian Miracle in a variety of manners besides economic growth. A broader analysis of this ten year period allows a much better evaluation of Brazilian development. This deeper understanding will also aid in the evaluation of the role of ELD strategy in Brasil during the study period. The Brazilian economic progress and the role of ELD strategy in this progress shall be evaluated first in terms of social aspects and then in terms of fiscal or macro-level monetary aspects of the development.

"The most significant characteristic of the Brazilian model is its built in tendency to exclude most of the population from the benefits of wealth and technological progress." So Brasil is described by one of her leading critics--C. Furtado. Perhaps, the major criticism of the Miracle, is that it has left the vast majority of the Brazilian population unaffected--that the benefactors have been too few. This contradiction of the Brazilian model shall first be examined and then evaluated in terms of possible causes, including the ELD strategy.

It is clear that there has been an extremely unequal distribution of the benefits of the Brazilian growth from 1964 to 1974. While every sector of the population saw some absolute gain in their average monthly income, the incomes of a small percentage of the population grew many times faster than those of the majority of the people. The result has been as increasingly acute problem of income distribution. The poorest 50% of the Brazilian population possessed only 17.7% of the total personal
incomes. (see table 10) The benefits were not distributed evenly among this higher 50%, butrather highly concentrated among the richest members of the society. Another study of income distribution, this one from 1960 to 1970 found that in terms of ten decile groups, only the richest decile increased their portion of the Brazilian wealth, registering a 20.5% gain. Other figures show a 25.9% increase by the highest 5% of the population and a 21.7% percent decrease by the middle 20% of Brazilians (see table 11). The poor may not be getting poorer in absolute terms, but the rich are getting richer and faster in absolute, percentage and any other terms one can imagine. In view of the tremendous growth enjoyed by Brazil over this period, many wonder if a permanent dualism of incomes is not perpetuating itself in the Brazilian economy—where two socioeconomic groups will entrench themselves side by side. There exists some 20 million people with annual incomes in excess of $1000 and another 85 million below the $300 annual income level. The workers and wealthy upper class exist in juxtaposition to a mass of desperately hungry and underemployed people. As the income distribution figures show, even the working class is having problems maintaining its position.

There is a growing sector of people living in a condition called absolute poverty. Various studies have dramatised this problem in Brazil. An estimated 33 million are severely underemployed or subsistence farmers. A bishop's study of the Northeast discovered an unemployment rate of 23%. Unemployment is much more serious in a country where there are few unemployment compensation benefits. A huge segment of the population consists of isolated, perhaps unreachable "marginals," living in the poor agricultural north or in the slums surrounding the southern cities.

Regional inequalities have worsened through the course of
### TABLE 10

**INCOME DISTRIBUTION IN BRAZIL 1960-1977**

<table>
<thead>
<tr>
<th></th>
<th>1960</th>
<th>1977</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richest 5%</td>
<td>27.7</td>
<td></td>
</tr>
<tr>
<td>Next 15%</td>
<td>26.7</td>
<td></td>
</tr>
<tr>
<td>Next 30%</td>
<td>27.9</td>
<td>21.2</td>
</tr>
<tr>
<td>Poorest 50%</td>
<td>17.7</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Macroe, "Oh Brasil."*

### TABLE 11

**SIZE DISTRIBUTION OF BRAZILIAN INCOME 1969 and 1970**

<table>
<thead>
<tr>
<th>Deciles</th>
<th>% Share of Total Income</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st (lowest)</td>
<td>1.17</td>
<td>1.11</td>
</tr>
<tr>
<td>2nd</td>
<td>2.32</td>
<td>2.05</td>
</tr>
<tr>
<td>3rd</td>
<td>3.42</td>
<td>2.97</td>
</tr>
<tr>
<td>4th</td>
<td>4.65</td>
<td>3.88</td>
</tr>
<tr>
<td>5th</td>
<td>6.15</td>
<td>4.9</td>
</tr>
<tr>
<td>6th</td>
<td>7.66</td>
<td>5.91</td>
</tr>
<tr>
<td>7th</td>
<td>9.41</td>
<td>7.37</td>
</tr>
<tr>
<td>8th</td>
<td>10.85</td>
<td>9.37</td>
</tr>
<tr>
<td>9th</td>
<td>14.69</td>
<td>14.45</td>
</tr>
<tr>
<td>10th (highest)</td>
<td>39.66</td>
<td>47.79</td>
</tr>
<tr>
<td>Highest 5%</td>
<td>27.69</td>
<td>34.86</td>
</tr>
<tr>
<td>Middle 20%</td>
<td>13.81</td>
<td>10.81</td>
</tr>
</tbody>
</table>

the 1964 to 1974 boom (see table 12). Income and development progress have largely concentrated in the South and Southeast while the northeast remains hopelessly impoverished. The bishop's study earlier referred to found not only a 23% unemployment rate, but a housing shortage of two million and a 60% illiteracy rate. Only 50,000 jobs have been created there since 1950.87

During the 1964 to 1979 period, Brasil experienced a hyper-urbanization, and the growth of some of the worst and largest slums in the world. Roughly three million people a year pour into the "favelas" or shanty towns surrounding the big cities.88 These slums represent the lowest possible standard of living—lacking social services, adequate housing and sanitation. They have high rates of crime and infant mortality. Roughly 1500 people die each year from starvation in Rio de Janeiro alone.89

The working class of thirty million has not benefited substantially from the Brasilian Miracle. They were disadvantaged by inflation above wage increases, a loss in job security, with dismissals increasing by 500%,90 impossibility of union organisation in such a competitive labor market and wages that fell behind productivity.91 Employment in manufacturing has increased at a lower rate than has manufacturing output itself.92

While Brasil has an extensive welfare system that is more comprehensive than that of most developing countries, it has a number of serious flaws which limit its benefits. Much of the small one billion dollar budget for social welfare is lost in bureaucratic paperwork and graft. Education received the largest percentage of this budget and can claim its greatest success. Literacy rates have risen to somewhere between 60 and 75%.93
Other criticisms of the Brazilian social situation refer to problems in housing, malnutrition, health, and education. The education system despite some advances is still strikingly deficient. Brazil's illiteracy rate was only surpassed in Latin America by six highly underdeveloped nations (Bolivia, Honduras, Guatemala, Dominican Republic, Haiti, and El Salvador). Here, Brazil seems to be bypassing an important element of development. Housing programs have been least successful in reaching the lowest income groups. Gains in this area were concentrated in the middle and upper classes. Health and malnutrition exhibit the problem of unequal income distribution. The poor Northeast and the slum areas give Brasil exceptionally high infant mortality rates and serious malnutrition problems. The ratio of doctors and hospitals to people is very low, and communicable diseases still account for 40% of the deaths in the country. The period was also marked by a total disregard for environmental concerns. The emphasis of the Brazilian Miracle was clearly on economic growth and not the well-being of its people.

The responsibility for these disturbing social aspects of the Brazilian development lays in part with the strategies of DLG and ELD, but primarily with the Brazilian government. The Brazilian government, which possessed an unusual amount of control over its own development, did not give egalitarian or humanitarian concerns a primary position in the development strategy it used. The government at no time considered the equal distribution of wealth to be vital to their country's growth or development, and took no serious action in this area. A counterlogic prevailed, in fact, that favored the observed maldistribution. First, they justified doing nothing to alter this inequality by their belief that upper income groups saved more; and that this high rate of saving was crucial to the Brazilian development. Although the facts show that income
rises in upper level income groups led to more consumption than saving, the harm of this logic was irreversible. The end result was that the forced savings of the poor (through social security and the like) were used to finance projects favoring the upper and middle classes, exacerbating this distribution problem. 97

The government also used foreign funds to finance a largely capital intensive, industrial growth (through EIG) which was unfavorable to redistribution or to aiding the majority of the Brazilian people. The capital subsidies offered favored capital intensive production at a time when Brazil needed more labor intensive production. Thus, relatively few benefited from the growth in this sector. Income distribution problems were made particularly acute in light of the difficulties the working class faced during this period as previously noted. The system of capital subsidies also brought special opportunities to the "loanworth" (the rich) by bidding up the prices of investments bought with lent money—bringing huge capital gains to the rich. A good deal of monetary speculation also took place during this period of high investment. Again, speculators tend to be wealthy and not poor people. 98

Finally this capital intensive industrial growth sparked the hyper-urbanization seen throughout the study period. As the masses from the countryside descended on the cities in search of a limited number of industrial jobs, the Brazilian government found itself unable to cope with the results of its own development plan.

In debt led growth, MNCs took advantage of income distribution problems to perpetuate a demand structure of capital goods and consumer durables conforming to their own. They produced for a small segment of the society and utilized a small segment of the society in their production. Thus, MNC interaction did not reach out and stimulate the economy as a
whole. 99

All of these above consequences occurring from the type of DLG Brasil pursued during this period were also characteristic of Brasil's ELD strategy, since it too prescribed a heavily capital intensive industrial growth. A number of other consequences also arose specifically from Brasil's export development. In ELD as implemented by Brasil, MNCs wealthy Brasilians and non-traditional sectors were favored. Traditional labor intensive industry was placed at a disadvantage. The MNCs which played such a big role in the development of the Brasilian manufactured exports sector, brought with them their highly capital intensive technology and production patterns which were unfavorable to the needs of most of the Brasilian population. The production of machinery and chemicals, etc...in the major cities, for export, did little to benefit the millions of underemployed and provided few other linkages to the rest of the economy. 100

The incentive system utilized to stimulate export growth favored non-traditional capital intensive products. A comparison of the growth rates of selected industries during the study period substantiate this conclusion(see table 13). This incentive system was biased against traditional products "that depended little on imported materials(comparatively) and components and provided greater employment opportunities." 101 These items also faced quota restrictions. MNC's which favored capital intensive products, were in a better position to derive maximum advantage from such export incentive as opposed to local Brasilian firms promoting traditional products. The success of high capital intensive products was also conditioned by the liberal import policy(in view of their high import needs). 102 The incentive system of the ELD strategy formed the capital intensive industrial growth which has been criticized thus far for its detrimental social effects.

The ELD strategy necessitated the promotion of capital intensive
industrial growth if it was to have any kind of success at all. The entrance in world markets requires responsiveness to world demand patterns. Brasil apparently saw too few benefits to be derived from middle stage production and therefore opted for the more highly capital intensive industrial production alternative. Brasil moved in a direction it saw as best suiting its development potential. This direction, however, did not appear to have the optimal impact possible on the domestic economy. Not only was the capital intensive industry relatively ineffective in spreading the benefits of growth, but it also detracted money and energy from more beneficial and appropriate types of industry.

F. Fiscal Regulation

The effects of ELD on the Brazilian economy can be more clearly seen in regards to Brazil's fiscal situation than to her social situation. The successful growth of exports experienced by Brasil over the study period had two destructive consequences. First, this growth greatly exacerbated Brasil's debt and balance of payments difficulties and second, it constrained future development options. This problem of debt and balance of payments difficulties will require a great deal of effort to overcome and could severely limit development possibilities in the future.

Rapid expansion of exports led to a substantial rise in Brasil's import capacity. These exports then served to finance the growing capital import demands required by industrial growth for domestic and export manufacturing. Exports and imports grew rather evenly in the early years of the strategy, increasing the country's interaction with the outside capitalist system. In 1971, imports began to exceed exports. When the oil crisis of 1973 to 1974 occurred and when Brasil began to feel the pressures of a sluggish world economy and increasing developed world tariffs—it became necessary to resort to large scale foreign borrowing to maintain her export
TABLE 12

REGIONAL DISTRIBUTION OF NATIONAL INCOME OF BRAZIL BY PERCENT

<table>
<thead>
<tr>
<th>Sector</th>
<th>1959</th>
<th>1970</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Northeast</td>
<td>14.1</td>
<td>12.2</td>
</tr>
<tr>
<td>Southeast</td>
<td>64.1</td>
<td>64.5</td>
</tr>
<tr>
<td>South</td>
<td>17.4</td>
<td>17.5</td>
</tr>
<tr>
<td>Centerwest</td>
<td>2.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

SOURCE: Baer. The Brazilian Economy.

TABLE 13

COMPARISON OF GROWTH RATES FOR BRAZILIAN TRADITIONAL AND NONTRADITIONAL EXPORTS 1971 to 1974

<table>
<thead>
<tr>
<th>Nontraditional Exports:</th>
<th>Value of Exports (US Millions)</th>
<th>Increase from '71 to '74</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals and Pharmaceuticals</td>
<td>49359</td>
<td>63054</td>
</tr>
<tr>
<td>Appliances and small electric goods</td>
<td>105583</td>
<td>139629</td>
</tr>
<tr>
<td>Transportation goods</td>
<td>27249</td>
<td>76596</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Traditional Exports:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>231661</td>
<td>371002</td>
</tr>
<tr>
<td>Processed Wood and Wood Manufactures</td>
<td>114689</td>
<td>120106</td>
</tr>
<tr>
<td>Skins, Hides and Products (Wallets, Purses etc....)</td>
<td>37524</td>
<td>76344</td>
</tr>
</tbody>
</table>

Source: Anuario Estadistico.
position. Money to pay for oil and to fuel her capital intensive development and to maintain and improve her export and domestic manufacturing capabilities came from abroad. While the effects of the extrovert strategy which became apparent in 1973 were enhanced by the rise in oil prices, "its limitations would have made themselves felt independently of the creation of OPEC."105 The increasing and frightening external debt of Brasil has its origins in the external orientation of an economy attempting to significantly promote her manufacturing export capabilities.

Brazil will have a difficult time paying off her external debt; with certain consequences for development in the process. Brasil hopes to increase her GNP and the rate of export growth enough to exceed the rate of interest payments on external debt (expected to be 10% per year). This would allow payment of the debt and a healthy development. These projections, however, make some very stiff assumptions such as the maintenance of a export growth rate of 15% and the continuation of increases in export prices—none of which are certain. Brasil feel it can beat the debt game since "the marginal productivity of capital in Brasil exceeds the real rate of interest on foreign loans."106 This logic also is a little shakey since foreign borrowing has encouraged recent investment in less profitable large infrastructure projects and since much of foreign borrowing is not invested but rather goes into consumption.107 There is clearly no easy solution to the debt problem caused in large part by ELD growth. It will affect any Brasilian development in the foreseeable future.

ELD growth's second destructive consequence in Brazil is its limiting of her options in the future. Any move to another development strategy will be severely constrained by the consequences of her past external orientation. Strategies emphasizing agriculture and a more internal development have been suggested. A significant move to agriculture will mean massive infrastructure
investment, lean times for those involved in heavy industry with no appreciable effect on balance of payments from agricultural exports expected for years. 108

There are no easy means of further contracting imports. Import substitution will raise imports in its early stages and international sellers are selling goods at historically low levels. Thus "from the balance of payments difficulties inherited in the past, it has to be concluded that export expansion will remain an important element in any future growth strategy for Brazil." 109 Brazil, faced with massive external debt, and much slower, must develop a strategy to deal with the external world economic crisis, internal imbalances in agriculture and accumulating social disparities. The economic miracle and its aftermath illustrate that "the external market affords opportunities but it also introduces constraints. Favorable and new access to capital markets that contributed to earlier growth has subsequently facilitated inadequate and inappropriate economic policies that now bind further options." 110

G. Case Study Conclusion

No one can deny the economic progress made by Brasil during the period of 1964 to 1974. Yet for all its economic growth, one is equally astounded by its lack of development in certain sectors. It was a development of contrasts--perhaps a classic case of growth without development. Another striking feature of the Brazilian Miracle, is its precarious financial situation. Few countries raise so much alarm about their own financing. These problems seem to be caused as much by the indifferences of Brazilian leaders as by its interaction with a complex and volatile world economic system. Perhaps the greatest threat to future Brazilian development is an acceptance of the faults of this model by its own people. Some attempt to minimize Brazil's problems claiming that everything possible is being done already--that there is
overfull employment of those who can be put in the labor force and that the rest of the people are illiterate and beyond reach, and that the decline in birth rates will eventually take care of these people. This type of attitude more than any single strategy or factor can limit true Brazilian development.

A number of consistencies are observable between the earlier evaluation of ELD strategy and this evaluation of Brazil's experience with ELD. Certain long run contradictions appeared in Brazil as cited in the earlier evaluation. Brazilian problems of debt, balance of payments difficulties and imports growing faster than exports are common ELD problems. Brazil face its share of stiff and at times unfair competition in the developed world. Also, the opportunity cost of investing in exports as opposed to more advantageous and productive sectors was readily apparent in Brazil as in other exporting third world nations.

A significant degree of dependence existed in Brazil from 1964 to 1974 due to its heavy reliance on the external market. Indigenous traditional industry suffered as a result of this reliance—again typical of ELD. This dependence on the external capitalistic system also resulted in a great level of MNC penetration and certain internal distortions such as the evolution of a highly capital intensive growth. The world economy did not seem to affect Brazil greatly during the period in terms of its fluctuations. However, the shock of the oil crisis, recession and rising protectionism have left Brazil more vulnerable in subsequent years.

Marxist criticism of ELD can be applied quite easily to the Brazilian situation. The exclusion of the majority of the Brazilian population and especially the poor in Brazil, from the mainstream of the Brazilian development seems to be exactly what the Marxists were talking about. A relatively small part of the population was interacting with external forces while
leaving most of the country unchanged. The linkages brought by this external interaction to Brasil affected a distinct group of people beneficially. Yet, the domestic bourgeoisie, while richer, was relatively limited in any attempt to forge an independent growth.

A couple of consequences noted in the earlier evaluation did not appear in Brasil during the period. Brasil was not affected by any third world competition for MNC production sites. Her exports were of a different nature than those usually involved in this competition.

The Brazilian government did not lose any power over the period. The government grew in size and in power along with MNCs. Brasil has however, lost control over much of the direction of her own economy in recent years.

Export led development strategy functioned quite well in Brasil for an extended period of time. It appeared a reasonable solution to some of the problems left by the import substitution period. The country has however discovered the cost of hasty implementation of ELD. Brasil was not responsive to the contradictions emerging in the early seventies and has since become bound or restricted by these consequences. One cannot definitively say that all the resources invested in the export effort have sufficiently paid off in development results. It is on the contrary the opinion of many, including this writer that these resources could have been much more wisely invested in agriculture or energy research(for example). In the future, Brasil must integrate ELD more closely with the real needs of her internal development if the strategy is to again become a viable and useful one.

X. CONCLUSION

Export led development is not a generally appropriate development strategy for poor third world countries. It was a successful major solution to development problems only for a very few countries. The time has passed when ELD can be the major viable development strategy for a developing
country. This is true for two main reasons: the rising developed country protectionism and the observed long run contradictions of the strategy. In an increasingly competitive and complex world economic situation the power of developed countries to crush an export sector makes heavy reliance on exports unacceptable as a basis for development. The contradictions of debt, balance of payments, the system of competitive incentives, and the need for MNC technology also render ELD inappropriate as a major development strategy. Heavy reliance on the external system simply brings with it many factors unfavorable to a true economic, political and social development. It is unclear if these unfavorable aspects are surpassed by the visible favorable aspects of export growth—even in countries thought to have implemented ELD successfully.

There can be a beneficial use of export growth in a third world country. It simply must occupy an integrated and small role in an overall development strategy. Export stimulation should be limited to a few very carefully selected industries from which definitive benefits can be derived. The third world country must be prepared to deal with all effects of export sector stimulation and be alert to any developing unfavorable circumstances. Even in Brazil, where exports occupied a small portion of GNP, the effects of export growth were significantly noticeable in many elements of their development progress. The key advice to third world countries is moderation, awareness and integration. ELD can only function as a minor part of any viable development strategy. Attempts to utilize it again as the main tenet of a strategy will fail due to the previously explained reasons. Unless third world countries are aware of the consequences and contradictions of ELD, they will most certainly suffer from the negative effects which have been discussed. Any attempts to use ELD must seek to integrate it closely with all other development sectors. ELD cannot function without affecting the entire economy of a developing nation. This study has shown that it does not act
independently of other factors. A third world nation must carefully weigh the effects that ELD can and would have on other sectors of their economy and on their country as a whole. The country must then decide if ELD can be integrated into its development strategy in a beneficial manner.

**Political Implications**

Export led development has a number of political as well as economic implications. In terms of past success it is difficult to assess the real political gains that have accompanied ELD growth in such nations as Brasil, Taiwan, Mexico, and Korea. On the one hand, they have acquired through ELD a strengthening of many of the classical elements of power. They do possess large industrial bases, developed infrastructures, larger and more skilled populations. Their potential to emerge from political and economic obscurity in the international system has seemed to increase. Yet, these semi-industrialized nations have not transformed their increased economic power and potential for political power into significant concrete political action. Having successfully completed ELD they are not acting more independently in the international sphere than at the beginning of their development. Some of the benefits of external economic action have been used to militarize these nations to some extent, and to create a national identity. However, the nature of this ELD growth has severely limited the development of real political power. It would be inconceivable today for countries such as Taiwan, S. Korea, or Malaysia to act in any independent fashion. The economic interests of the elites of these countries are so deeply tied to the Western developed world that no change in the political situation appears possible. They are dependent on the West for political protection as well as economic growth. These nations are not acting significantly more independently today than twenty years ago, despite their ability to produce more.

Any significant independent political action which might be taken
by the third world export orientated will require a breaking of their fundamental economic orientation. The use of their new potential requires a movement away from ELD strategy which mandates complete integration with the import needs of the developed West. The semi-industrialised third world countries might be able to convert their economic growth into some type of a more independent political existence within a new economic development context. ELD thus can be credited with giving these nations at least the potential for attaining real political power should they ever desire such a change. It is very difficult to assess the possibility of such "independent" elites ever gaining control of the governments of these nations. It appears rather remote since those who benefit from ELD are already in power and are likely to maintain the current situation. The decline of ELD as a viable development strategy may however bring down these elites and allow more independence minded leaders to surface and perhaps seek a more autonomous political model in the tradition of Yugoslavia, Cuba and pre-1973 Chile.

The independent political action seen in Mexico and Brasil are largely due to factors outside of ELD. The natural resources lever enjoyed by both Brasil and especially Mexico (with oil and natural gas) has afforded them a freedom of action in the international sphere. They have taken positions in direct conflict with the interests of the US and have maintained those export orientation and development models intact. It is doubtful that without this natural resources lever that such actions would have been possible or profitable.

ELD of itself does not appear to be especially conducive to the development of independent political power. This is not to say that a significant export orientation towards the developed world and independent political action are totally incompatible. However, political power has
not grown equally with economic power within the ELD countries and the possibility of real independent political action in these countries will require a move away from ELD strategy and a change of domestic political elites. ELD thus does not appear as an optimal development strategy for those nations seeking political as well as economic development. This is especially true today when even the economic benefits to be derived from ELD appear to be declining.

If a better understanding has been reached through this study, perhaps a few suggestions for a new direction of development are appropriate here. A better development should have a more internal focus emphasizing the needs and potentials of the majority of the people in a third world nation. Stress should be placed on an egalitarian income redistribution, indigenous technology and research, and productive employment of the masses. This focus of development must rest directly on the betterment of the lives of the people this process was supposed to help, but of whom to date it has largely ignored. It should also be recognised that a real development cannot be successfully implemented in every corner of the world. This planet as a system has certain built in constraints. Certain regions simply can never support the populations which now occupy them. Those concerned with development must now be keen to realize and accept the true potentials of development in different locations of the world, working to develop areas of promise, and working to de-emphasize areas which offer no hope.
FOOTNOTES


3 Helleiner., p. 22.

4 Ibid.


7 Morrison., p. 8.


9 Helleiner., p. 22.

10 Landsburg., p. 52.

11 Helleiner., p. 22.

12 Landsburg., p. 52.


14 Morrison., p. 8.

15 Ibid., p. 7.

16 Roett., p. 45.

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18 Helleiner., p. 23.

19 Morrison., p. 10.

20 Helleiner., p. 25.


22 Ibid.

Landsburg., p. 55.
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Helleiner., p. 56.
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Landsburg., p. 56.
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Helleiner., p. 34.
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Ibid., p. 61.
Helleiner(2), p. 81.
Ibid., p. 84.
Helleiner., p. 59.

49 Ibid.

50 Frank Lecture.

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53 Narayanan, p. 342.

54 Ibid., p. 344.

55 Helleiner(2), p. 87.


60 Ibid., p. 104.

61 Belassa, p. 1023.

62 Macrae, p. 16.

63 Roett., p. 45.

64 Ibid., p. 40. and Macrae, p. 16.

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71 Basil Caplan, "Brasil at the Crossroads," Banker 25 (August 1979)
72 Roett., p. 46.
73 Hoffman., p. 92.
74 Caplan., p. 35.
75 Fishlow., p. 107.
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77 Narayanan., p. 334.
78 Hoffman., p. 91.
79 Roett., p. 51.
80 Macræ., p. 6.
81 Roett., p. 51.
83 Villegas., p. 52.
84 Narayanan., p. 52.
85 Anderson., p. 56.
86 Villegas., p. 57.
87 Ibid.
88 Caplan., p. 31.
89 Villegas., p. 57.
90 Anderson., p. 56.
91 Villegas., p. 59.
92 Robock., p. 134.
93 Ibid., p. 62.
94 Ibid., p. 150.
95 Ibid., p. 158.
96 Caplan., p. 32.
97 Roett., p. 57.
98 Macrae, p. 2.
99 Narayanan, p. 344.
100 Ibid., p. 342.
101 Ibid.
102 Ibid.
103 Belassa, p. 1023.
104 Hoffman, p. 92.
105 Ibid., p. 88.
106 Ibid. p. 1037.
108 Caplan, p. 36.
109 Hoffman, p. 93.
110 Fishlow, p. 107.
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