

TABLE 2. TRANSFORMATION OF THE SOUTH KOREAN ECONOMY,
1954-1982 (As a percentage of gross national product)

	1954	1962	1972	1982
Primary Sector ^a	51.1	45.3	29.2	19.2
Manufacturing	5.3	9.1	20.9	34.2
Social Overhead and Services	43.6	45.6	49.9	46.6
Exports	0.8	2.0	16.4	31.8
Imports	7.2	15.6	23.7	36.5
Domestic Investment	11.9	12.8	21.7	26.2
Domestic Saving	6.6	3.3	15.7	21.5
Foreign Saving	5.3	10.7	5.2	4.8

SOURCE: Congressional Budget Office based on data from Kim Kwang-suk and Park Joon-kyung, *Sources of Economic Growth in Korea: 1963-1982* (Seoul: Korea Development Institute, 1985).

a. Agriculture and natural resources.

problems. In the 1970s, for example, the government decided to create and expand heavy industry. But in doing so, it created shortages in light industries and consumer goods, leading to steep inflation. Those decisions did not prove particularly detrimental, however, as they had in many other developing countries. The strength and diversity of the economy by the 1970s allowed it to weather the government's mistakes and external shocks.

A Modern Economy

South Korea today is by most accounts a modern industrial economy. Under President Park's successors—Chung Doo Hwan, Roh Tae Woo, and Kim Young Sam—South Korea continued along its outward-looking, export-oriented path to industrialization and growth. It suffered a minor setback in the worldwide recession in the early 1980s but quickly reestablished its rapid economic growth. It now is at the top of the World Bank's list of upper-middle-income countries. Table 3 illustrates Korea's emergence as a modern industrial economy, comparing several economic and social indicators with those of Japan in 1993.

ROLE OF FOREIGN ASSISTANCE IN SOUTH KOREA'S DEVELOPMENT

After fighting a war to defend South Korea, the United States had a strong interest in avoiding that country's political or economic collapse and the possibility of a communist revolution in South Korea. Consequently, the United States poured aid into Korea. Indeed, of the eight countries the Congressional Budget Office studied in depth, South Korea was second only to Egypt in the amount of U.S. aid received. That aid included large flows of military and economic support as well as substantial technical assistance (see Figure 2). The form that aid took varied over time: between 1953 and 1970, most U.S. economic assistance was in the form of grants; after 1970, most aid was in the form of concessional loans; by 1975, most U.S. assistance consisted of loans from the Export-Import Bank.

Other donors began giving assistance to South Korea in the 1960s. The World Bank—a major multilateral donor to Korea—first sent aid in 1962. In 1965, Japan began giving money to Korea. Finally, the Asian Development Bank began lending to Korea in 1968. Other donors, including the United Nations and the Federal Republic of Germany, have given smaller amounts of money.²⁸

28. Steinberg, *Foreign Aid and the Development of Korea*, pp. 31-33.

TABLE 3. COMPARISON OF VARIOUS ECONOMIC AND SOCIAL INDICATORS FOR SOUTH KOREA AND JAPAN, 1994

Indicator	South Korea	Japan
Real GNP per Capita (Dollars)	10,330	21,130
Manufacturing as a Percentage of GDP	29	27
Agriculture as a Percentage of GDP	7	2
Energy Use per Capita ^a	3,000	3,825
Adult Illiteracy	b	b
Total Fertility Rate (Births per woman)	1.8	1.5
Infant Mortality Rate ^c	12	4
Urban Population as a Percentage of Total Population	80	78

SOURCE: Congressional Budget Office based on data from the World Bank.

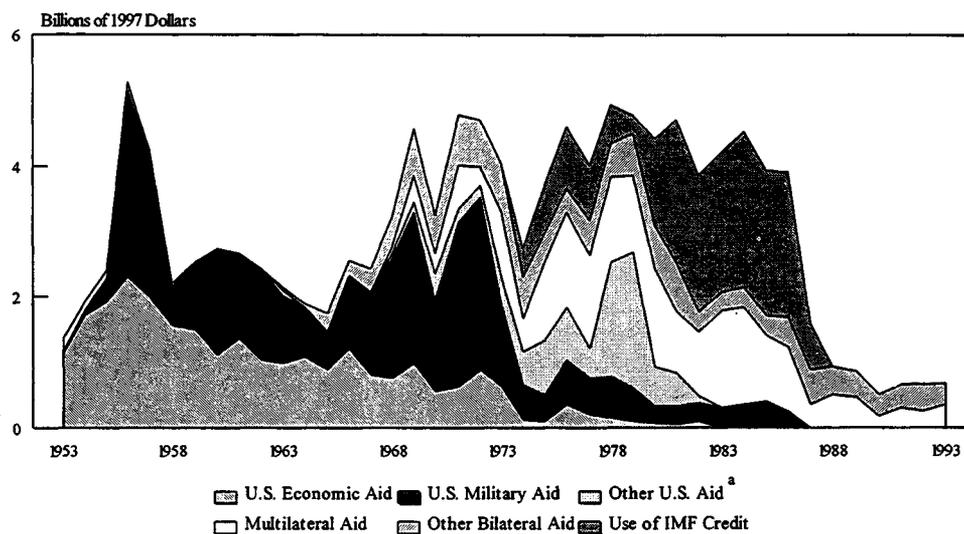
NOTE: GNP = gross national product; GDP = gross domestic product.

a. Kilograms of oil equivalent.

b. The World Bank reports this number as "less than 5 percent."

c. Deaths of infants under 1 year of age per 1,000 live births.

FIGURE 2. FOREIGN ASSISTANCE TO SOUTH KOREA, 1953-1993



SOURCE: Congressional Budget Office based on data from the Agency for International Development, the World Bank, and the Organization for Economic Cooperation and Development.

NOTE: IMF = International Monetary Fund.

a. Mostly loans from the Export-Import Bank.

This discussion of the role of foreign assistance in South Korea's development focuses primarily on U.S. assistance. The United States gave almost as much economic assistance to Korea as all other donors combined. Between 1953 and 1963, when the foundation of Korea's future growth was being laid, the United States provided almost all of that country's foreign assistance.

Health

South Korea has tended to neglect investment in social services, including health care. Both the South Korean government and U.S. aid agencies placed a relatively low priority on investment in health. Between 1954 and 1964, the United States spent about 3 percent of its project assistance on the health sector. Sanitation and water supply projects usually received the highest priorities. Although Korea's government spending on health has been low by Asian standards, private spending on health services between 1960 and 1974 rose from 2.3 percent of private consumption expenditures to 3.6 percent, reflecting in part rising incomes.²⁹

Nevertheless, health conditions in Korea have improved considerably since the 1950s. The number of hospitals and clinics nearly doubled between 1955 and 1975. In 1955, there were 6,141 doctors in Korea; that figure rose to 16,800 in 1975. Infant mortality, a commonly used measure of access to health care, declined from 78 per thousand live births in 1955 to 49 in 1973. Finally, the death rate (deaths per thousand people) declined from 14 in 1955 to 9 in 1973. According to a 1981 study, despite those dramatic improvements, relatively low government involvement and spending on health care left rural areas "underserved."³⁰

Education

Education played one of the most important roles in Korea's economic growth and development. Despite a strong cultural tradition that favored education, only 13.5 percent of the population was literate in 1945. But the government invested in building schools and compelled six years of primary education. To help Korea meet the demand for classrooms, which far exceeded the available supply, U.S. assistance helped build 23,000 classrooms between 1952 and 1966.³¹ The United States spent about 4 percent of its project assistance on education.

29. Mason and others, *Economic and Social Modernization of Korea*, p. 405.

30. *Ibid.*, p. 407.

31. Krueger and Ruttan, "Assistance to Korea," p. 246.

By the 1970s, the illiteracy rate had declined dramatically. Primary schools were within walking distance for most village children. Middle schools, high schools, and colleges, however, were still located only in urban centers.

Investment in infrastructure and institutions of higher education was generated primarily by the private sector, although the Agency for International Development helped develop the College of Agriculture of Seoul National University. In the 1950s and 1960s, AID sent nearly 3,000 Koreans to the United States for training.

Overall, the role of foreign assistance in promoting educational achievement in Korea does not appear to have been a large one—not because foreign programs were ineffective or badly managed, but because the Korean government and especially Korean society placed considerable emphasis on education. The government invested large sums in schools and infrastructure, but the private sector—business and individual families—did more to support higher education.³²

Population Growth

The major foreign aid organizations in this sector were the Agency for International Development and the United Nations Fund for Population Activities. Some international nongovernmental organizations, such as Planned Parenthood, were also involved.

During the 1950s, family planning and population programs were a low priority of the Korean government. President Rhee opposed them and, hence, devoted few resources to them. That view changed after President Park assumed power. He instituted a national family planning program. The donors played an important role in planning that program as well as providing funding and technical assistance. The role of foreign organizations and donors in population programs later declined, but they remained as providers of contraceptive supplies and as a source of research and advanced training in family planning and population.

Various indicators revealed a dramatic decline in Korea's population growth rate. Between 1960 and 1975, Korea's total fertility rate dropped from 6 births per woman to under 4. One scholar has described that as "one of the fastest [fertility declines] recorded in any nation in history."³³

32. Mason and others, *Economic and Social Modernization of Korea*, pp. 358-359.

33. Robert Repetto quoted in Mason and others, *Economic and Social Modernization of Korea*, p. 381.

It is difficult to say, of course, whether the slowing of Korea's population growth and the steady decline in the fertility rate would have occurred in the absence of President Park's national family planning program or foreign assistance. Some scholars argue that part of the decline in growth and fertility rates might have accompanied Korea's economic and social development regardless of official policy or programs.³⁴

Agriculture

Foreign assistance played a substantial role in promoting agriculture in South Korea. Arguably, some of the U.S. foreign aid in the 1950s, notably P.L.480 food assistance grants, enabled the Rhee government to neglect agricultural production because it received a steady, cheap supply of foodstuffs from abroad. Nevertheless, foreign assistance programs played a large and positive role in promoting land reform and development, the use of fertilizer, and agricultural extension and research.

In the early 1960s, U.S. food aid was used to pay Korean laborers to create additional farmland from hillsides and tideland areas; those laborers then assumed ownership of the land. That program attempted to increase the available agricultural land by 15 percent. It was discontinued after 1967 because of questions about its management and cost-effectiveness. Some instances of corruption and mismanagement also occurred. Finally, AID, the Asian Development Bank, the World Bank, and the United Nations supported a massive irrigation effort between the early 1960s and the late 1970s. The results were positive, despite some cost overruns. Irrigated land increased from 662,000 hectares to 1,122,000.³⁵

Between 1945 and the mid-1960s, U.S. assistance provided the primary funding for importing agricultural input such as pesticides, fertilizers, and new seed varieties. U.S. loans provided the means to build five fertilizer plants in Korea in the 1960s. When Korea became a net exporter of fertilizer as a result of those plants, the United States terminated its assistance in that area.

Agricultural output grew at an annual rate of 3.2 percent between 1946 and 1973. According to one study, "about 57 percent of total production growth is attributable to the increase of input and the remaining 42 percent to improvement in

34. See Robert Repetto and others, *Economic Development, Population Policy, and Demographic Transition in the Republic of Korea* (Cambridge: Harvard University Press, 1981), pp. 247-250.

35. Krueger and Ruttan, "Assistance to Korea," pp. 239-240.

productivity.”³⁶ However, some problems occurred in the government’s distribution of aid-financed fertilizer that caused inefficiencies and black-market activity. U.S. suggestions to privatize and improve distribution had little effect. Reforms in the late 1970s, long after U.S. assistance had ended in that area, solved those problems.³⁷

U.S. assistance in the agricultural sector supported agricultural research and extension services. Initially, much of the money AID provided was diverted for other purposes. Agricultural research and extension had acquired a bad name because it had been associated with Japanese colonialism. In 1962, those efforts were reorganized. AID provided political and financial support to a newly created independent agricultural agency attached to the Ministry of Agriculture and Forestry. Its main efforts were devoted to agricultural research and the extension or transfer of technology to farmers. The Korean government was committed to that program, and the service became highly centralized, thus permitting the quick diffusion of new and innovative technology that raised agricultural yields. Yet sometimes the very effectiveness of the organization caused inappropriate technology to be diffused equally well.

Overall, during the 1973-1980 period, after the research and extension service was in place and foreign assistance in that sector was largely phased out, total agricultural output grew 5.4 percent a year. Productivity—output per unit of total input—grew 3.3 percent a year.³⁸

Economic Growth

During the 1950s, U.S. economic assistance represented 69 percent of imports and 77 percent of all saving in South Korea. Food aid was particularly important in sustaining the Rhee government. One study estimated that without all that assistance, Korea’s living standards would have been 10 percent to 15 percent lower.³⁹

Nevertheless, the inward-looking, import-substitution policies of the Rhee government were constricting the economy, regardless of the size of aid flows. U.S. officials fully recognized that fact and tried to persuade the Korean government to

36. Sung Hwan Ban, Pal Yong Moon, and Dwight H. Perkins, *Rural Development* (Cambridge: Harvard University Press, 1980), pp. 57-60.

37. Krueger and Ruttan, “Assistance to Korea,” p. 242.

38. *Ibid.*, pp. 243-244.

39. Mason and others, *Economic and Social Modernization of Korea*, p. 459.

make reforms. Although Rhee made a few concessions along those lines, such as a devaluation of the currency and an attempt at greater fiscal discipline, “the overall strategy of the Rhee government was to maximize the gap between domestic resources and expenditures for foreign aid to fill. Because the United States was politically committed to the maintenance of the South Korean government, U.S. bargaining power was relatively weak.”⁴⁰

In fact, Rhee’s aid strategy included a measure of deception. For example, the Rhee government counseled its ministries to understate Korea’s harvests “to try to maximize the inputs of United States agricultural products under the aid program . . .”⁴¹ He apparently succeeded in that effort. In some years during the 1950s, the United States provided a third or more of the total budget for the government. In 1956, U.S. support for the Korean government’s budget reached 58 percent of total expenditures.⁴² One study has called that a policy of “coercive deficiency.”⁴³

Arguably, aid’s most significant contribution to Korea’s future economic growth was in providing infrastructure investment and technical assistance. U.S. assistance also helped Korea to recover from the war and rebuild as quickly as it did. The large amount of infrastructure construction—power systems, railroads, and port capacity—that the United States financed probably permitted faster economic growth in future years than otherwise would have been possible. In addition, Krueger and Ruttan have argued that “the experience gained in infrastructure construction in the 1950s and 1960s enabled Korea to become a major exporter of construction services to the Middle East in the 1970s and early 1980s.”⁴⁴

Many lower-level officials within the Rhee government received training in economics in the United States. They argued for economic reforms in the 1950s but were resisted at the upper echelons of the government. In the 1960s under the reform-minded Park government, however, their skills and expertise were put to good use in designing and implementing the outward-looking, export-oriented economic strategy that launched Korea on the path of rapid economic growth. According to one analyst, “one may sum up the pre-Park era on overall aid effectiveness as one in which foreign assistance was essential to the survival of the state but poorly used and unimaginatively planned and administered. Some

40. Krueger and Ruttan, “Assistance to Korea,” p. 234.

41. Cole and Lyman, *Korean Development*, p. 79.

42. Steinberg, *Foreign Aid and the Development of Korea*, p. 23.

43. Mason and others, *Economic and Social Modernization of Korea*, p. 458.

44. Krueger and Ruttan, “Assistance to Korea,” p. 235.

preconditions for growth were created: excess industrial capacity, an educated population, and foreign, modern specialized training in skills needed for development. The results, however, did not seem equal to the effort.”⁴⁵

In the late 1950s, U.S. officials began to place more emphasis on development. They warned the Rhee government that aid flows would gradually decline and eventually end. That warning, and the realization on the part of many Koreans that the United States actually meant it, stimulated efforts to put Korea’s economic house in order. General Park justified his military coup in 1961 in part because the Rhee government had “frittered away” large quantities of foreign assistance.⁴⁶ The Park government began to reform economic policies in the early 1960s. Those reforms were crucial factors in Korea’s successful development.

According to an AID study, by 1964 that agency was playing an extremely important role in planning, supporting, and sometimes even directing South Korea’s export strategy—the key to its industrialization. AID personnel and advisers provided most of the expertise necessary to create the institutions, laws, and procedures to promote South Korean exports. AID personnel staffed the South Korean government entities that were making policy for the export drive, identified and encouraged foreign buyers of Korean exports, provided technical advice on improving Korean export products, funded trips by Korean business representatives to examine methods of promoting exports, and provided technical advice on almost every conceivable aspect of reorienting the South Korean economy toward exports. President Park provided the political will to reform and export, and AID provided the technical expertise for the first few years.⁴⁷

The foreign aid South Korea received in the late 1960s and 1970s was important to its development in other ways. Primarily, that aid increased the pool of available investment capital. The period between 1965 and 1975 illustrates what a developing country can accomplish when it adopts sound economic policies, has favorable background conditions such as a well-educated labor force, and has extra capital provided by international sources and uses it for investment. Foreign transfers declined as a share of total domestic investment over that period, from an average of 75 percent in the 1960-1962 period to 5.1 percent in the 1973-1974 period

45. Steinberg, *Foreign Aid and the Development of Korea*, p. 27.

46. Cole and Lyman, *Korean Development*, p. 78.

47. Agency for International Development, Bureau for Global Programs, Field Support and Research, *USAID and Economic Policy Reform: Origins and Case Studies* (Forthcoming).

(see Table 4). By the 1970s, South Korea was sufficiently creditworthy to borrow the capital it needed on the international market.⁴⁸

Could South Korea have developed just as quickly if it had not received such high levels of foreign assistance in the 1960s and 1970s? Some critics of foreign aid argue that South Korea began to make reforms only after the United States threatened to stop providing aid and that South Korea's growth trajectory soared only after U.S. aid ended. That argument, however, is somewhat misleading. On the one hand, the Rhee government was finally motivated to make some reforms when the United States informed it that aid flows would decline in the future. On the other hand, it is not clear that the Park government, which made the most important reforms, was motivated by the impending end of aid resources. Park wanted to reform the economy to make it grow in order to gain legitimacy for his government. Moreover, he did so with AID's help, particularly in promoting exports. Finally, South Korea continued to receive aid from multilateral institutions, war reparations from Japan, and credits from the Export-Import Bank.

The positive economic policies Korea adopted in the early 1960s and its strong base of human capital probably would have fostered significant economic growth in the succeeding 10 years regardless of the amount of foreign assistance it received. But growth would probably have been slower simply because the investment pool would have been smaller or, if Korea could have obtained the funds from the international capital markets, more government revenues would have been needed for servicing the debt.⁴⁹

Military Assistance

U.S. military assistance to Korea between 1953 and 1960—approximately \$8.7 billion in 1997 dollars—aided Korea's development in several different ways. First, U.S. assistance helped build up the strong military establishment that South Korea needed to ensure its defense after the Korean War. By providing support for the defense budget, the United States allowed South Korea to devote resources to other, more productive sectors.

Second, thousands of Korean military officers were trained in the United States. After they left military service, many of them assumed important roles in the civilian government and economy. According to an AID study, much of the early supply of skilled labor in the 1960s and 1970s, such as electricians and mechanics, came from the military.

48. Mason and others, *Economic and Social Modernization of Korea*, p. 459.

49. *Ibid.*, p. 187.

TABLE 4. DOMESTIC AND FOREIGN SAVING IN SOUTH KOREA, 1958-1974
(Saving as a percentage of total investment)

	Total Investment as a Percentage of GNP	Domestic Saving		Foreign Saving ^a	
		Private	Government	Transfers	Borrowing
1958	12.9	62.5	-24.1	69.8	-8.2
1959	10.7	61.5	-25.0	67.0	-3.5
1960	10.9	33.2	-18.7	82.3	-4.0
1961	13.1	42.8	-13.6	69.5	-4.3
1962	13.0	22.1	-10.7	72.9	10.0
1963	18.4	39.0	-1.4	37.8	20.6
1964	14.5	44.8	3.5	43.5	5.1
1965	14.7	38.1	11.5	44.2	-2.0
1966	21.6	41.6	13.0	26.5	12.5
1967	21.9	35.5	18.5	21.7	18.5
1968	26.7	27.5	23.5	14.6	28.5
1969	29.8	38.0	20.8	11.4	25.5
1970	27.2	34.5	25.5	8.0	27.4
1971	25.6	33.3	23.6	7.4	36.6
1972	20.9	53.1	18.6	8.3	18.4
1973	26.2	66.9	17.4	5.9	9.5
1974	31.4	51.7	9.6	4.3	38.9

SOURCE: Congressional Budget Office based on data from the Korean Economic Planning Board.

NOTES: Domestic saving and foreign saving should total 100 percent. However, various statistical discrepancies may put such a total off by a few percent.

GNP = gross national product.

a. Foreign transfers and perhaps a small proportion of foreign borrowing represent foreign aid. Most foreign borrowing is private capital. Negative numbers indicate that loan repayments exceeded additional borrowing.

Indeed, a fair amount of the social mobility in Korean society during the 1960s and 1970s resulted from service in the military.

Third, Korea's development experience was largely a hierarchical and centralized process. The experience gained by many people in the command structure of the Korean military may have contributed to the success of many Korean development projects. Both President Park and President Chung were former army generals who pursued Korea's development from the top down. But no definitive analysis has been written—or perhaps can be written—about that contribution.

INFLUENCE OF GOVERNANCE ON THE PHILIPPINES' DEVELOPMENT

Development in the Philippines has lagged behind that of many other nations of East Asia. The poor development record reflects a climate of economic mismanagement and massive corruption, in addition to the waste of large amounts of foreign aid. The policies of Ferdinand Marcos, who ruled the Philippines from 1966 to 1986, deserve much of the blame for that state of affairs. During his tenure, the Philippines dropped from being one of the most prosperous nations in Asia to being one of the poorest. Although the Philippine economy grew during the Marcos presidency, poverty increased, natural resources were depleted, and foreign debt ballooned. Since Marcos left, the economy has improved, but the Philippines' prospects remain uncertain.

The Structure of Government

The Philippine democracy in the 1950s and 1960s was patterned after that of the United States, with a president, a congress, and an independent judiciary. In reality, the presidency in the Philippines was much stronger than its U.S. counterpart. Philippine politics were dominated by an oligarchy until 1972. A small number of wealthy, landed families controlled the congress and usually rotated the presidency among different regional power centers. As some scholars have observed, "the extended family was a particularly strong source of identification and status in the Philippines, and patron-client relationships linked the population to the oligarchic family in its area or region."⁵⁰ Members of that oligarchy, though by no means unanimous in their outlook, set the nation's economic and political policy. Ferdinand Marcos was only the second president since 1946 who was not considered a member

50. Robert S. Dohner and Ponciano Intal, Jr., "The Marcos Legacy: Economic Policy and Foreign Debt in the Philippines," in Jeffrey D. Sachs and Susan M. Collins, *Developing Country Debt and Economic Performance*, vol. 3, *Country Studies—Indonesia, Korea, Philippines, Turkey* (Chicago: University of Chicago Press, 1989), p. 376.

of that ruling group. And the congress often served as the oligarchy's arena of elite representation and bargaining.

Ferdinand Marcos was elected president in 1966 and, breaking tradition, was reelected in 1969. In 1972, in the wake of domestic disorder, he staged a coup whereby he dissolved the legislature, shut down the media, and arrested hundreds of individuals in the name of restoring domestic political order. He ruled by decree and wrote a new constitution—actions that have been called “constitutional authoritarianism.”⁵¹ He ruled until driven from power by a “people’s power” revolution in 1986.

Around the time of Marcos’s coup, a Muslim-led insurgency broke out in the southern part of the country. The Philippines is overwhelmingly Christian, and the Muslim forces sought greater autonomy. Although that conflict was a seemingly intractable problem that took more than 20 years to end, it was confined and did not impinge much on the normal business of most of the country. Marcos also had to deal with the Marxist-oriented New People’s Army in the northern part of the country.

Philippine politics under Marcos’s successors—Corazon Aquino and Fidel Ramos—appear to resemble those of the pre-Marcos era. The oligarchy still dominates the political system, and the president is the strongest political force in the country. In addition, Aquino’s first few years were characterized by numerous attempted coups and the communist insurgency. Those threats largely receded as her term ended, and she was succeeded by Fidel Ramos, a former army chief of staff and defense minister.

Corruption

A major impediment to development in the Philippines has been widespread government corruption, especially under Marcos. In the 1950s and 1960s, the Filipino political system was used to enrich members of the ruling elite. State-owned enterprises were generally badly run and corrupt, and side-payments and kickbacks to politicians were common. A major reason for running and holding office was to enjoy those “benefits.” As one member of the Philippine senate put it: “What are we in power for? We are not hypocrites. Why should we pretend to be saints when

51. Ibid., p. 386.

in reality we are not?”⁵² Indeed, access to credit at below-market rates was one of the privileges of government in the Philippines.

Under Marcos, however, the use of the political and economic system to benefit the president and his friends expanded on a massive scale. Robert Dohner and Ponciano Intal have characterized the behavior of that group as “crony capitalism” and attribute to it a major portion of the blame for the Philippines’ underdevelopment. Crony capitalism was conducted through various means, such as awarding government contracts to the politically favored, padding expenses, and providing kickbacks. But “the most important aspect was the creation of monopolies, either through direct intervention to control an industry or through granting exemptions or exclusive privileges to favored individuals.”⁵³ For example, in the forestry sector, some of the logging licenses went to government ministers and Marcos’s friends. Even when land was allocated to others, Marcos’s allies were allowed to log in those areas under the pretext of clearing the forest for settlement projects of the Ministry of Agrarian Reform.⁵⁴ According to one study, the cost to the Philippine economy of crony capitalism in the early 1980s represented at least 10 percent of government revenues, not counting all the investment it may have discouraged and capital flight it encouraged.⁵⁵

Moreover, Yoshihara Kunio, in a comparative study of the Philippines and Thailand, has argued that corruption has extended to the Philippine police forces and judiciary. Many police have worked for criminal syndicates. High-ranking police officials receive a modest salary yet live luxuriously. The Philippine police, Yoshihara concluded, are “probably the most corrupt government agency in the Philippines.”⁵⁶ Some judges were allegedly influenced by money during trials; even before martial law, the rich and powerful in the Philippines could evade punishment for many crimes, including murder.⁵⁷

As martial law corrupted law enforcement and the economy deteriorated, the crime rate exploded. That contributed to the flight of domestic capital from the

52. Quoted in James K. Boyce, *The Philippines: The Political Economy of Growth and Impoverishment in the Marcos Era* (Honolulu: University of Hawaii Press, 1993), p. 8.

53. Dohner and Intal, “The Marcos Legacy,” p. 399.

54. Boyce, *The Philippines: The Political Economy of Growth and Impoverishment*, pp. 233-234.

55. Dohner and Intal, “The Marcos Legacy,” pp. 478-479.

56. Yoshihara Kunio, *The Nation and Economic Growth: The Philippines and Thailand* (New York: Oxford University Press, 1994), p. 193.

57. *Ibid.*, p. 194.

Philippines during the 1970s and 1980s. Private property of the poorer classes was often confiscated by wealthy individuals, and the poor could do little about it except join the rebels. Owners of small businesses would lose their businesses to criminals who used fake titles or legal gimmicks to claim property they did not own, and the judges would uphold their tactics.

Absence of Land Reform

Unlike South Korea, the Philippines has not implemented a major land reform program. Reform of land tenureship and ownership patterns, which many scholars say is necessary for improving rural life and alleviating poverty, has been extremely limited. As a remnant of the Spanish colonial era, some small peasant landholders coexist in the Philippines alongside large plantations that produce crops for export. Poverty in rural areas in the Philippines is severe and deepened during the Marcos era.

The powerful land-owning oligarchy, especially the sugar barons, have controlled the congress and resisted any attempt at land reform. In the 1950s, President Magasaysay managed to pass some very weak legislation, which had little substantive impact on ownership patterns. Marcos was frustrated by the congress in some land reform efforts during his elected administrations. Under martial law, he made some reforms that benefited the tenants and owners but bypassed the large pool of landless agricultural workers. Export agriculture has remained largely untouched by land reform efforts. Even President Aquino, a member of the oligarchy and daughter of a sugar plantation owner, declared that she opposed land reform of the sugar plantations because it would not be economically feasible. Erik Thorbecke suggests, however, that this view is mistaken. Production of crops such as sugar are likely to face constant or decreasing returns to scale—that is, as the farming enterprise becomes larger, the costs of production remain constant or increase. Only in processing activities are there increasing returns to scale.⁵⁸

INFLUENCE OF DOMESTIC ECONOMIC POLICIES ON THE PHILIPPINES' DEVELOPMENT

Economic nationalism is a theme that has existed in Philippine politics and economic policymaking. There exists a strong desire to “Filipinize” the country’s economy—that is, to reserve land ownership, use of natural resources, and participation in many

58. Erik Thorbecke, “The Political Economy of Development: Indonesia and the Philippines” (Inaugural Frank H. Golay Memorial Lecture, Cornell University, Ithaca, N.Y., November 11, 1994), p. 25.

economic activities for native Filipinos. That sentiment has included discouraging foreign investors and the Philippines' industrious and entrepreneurial Chinese minority throughout the post-World War II period.

Economic and trade policy in the 1950s was dominated by a struggle between the sugar barons and the owners of industry. The sugar barons favored "more liberal trade and exchange rate policies—avoiding overvaluation of the peso and limiting the degree of import protection."⁵⁹ Increasingly, however, they were challenged by the inward-looking, import-substituting industrial sector. By the end of the 1950s, that sector had emerged as a more powerful force, advocating and benefiting from protection and overvaluation of the currency.

Four factors seemed to account for the Philippines' economic growth in the 1950s. First and most important was the "accelerated social change in attitudes and values which determined the 'will to economize'—the intensity of economic activity."⁶⁰ Perhaps the critical source of that change was the public school system. Based on the U.S. model, it instilled in Filipinos the notion that individual dignity, security, and welfare depended as much on their own abilities as on birth or the vagaries of nature.

Second, the Philippines maintained a consistent economic policy of relying on private initiative and capitalism. Although a few state-run enterprises existed, Filipinos generally believed that growth came from private initiative and that socialism was not a path to the future. That is not to say that the government pursued a completely free-market approach; it used consumer price controls and invested in public enterprises that were not very profitable, but the government—primarily the congress—has been generally conservative in expanding the economic role of the state. The Filipinization of the economy through subsidized credit, domestic protection, and tax exemptions accelerated the growth of Filipino entrepreneurship and contributed to the accumulation of capital.

Third, foreign saving, primarily from the United States, covered the Philippines' current-account deficits and contributed the bulk of net investment in the 1950s. Finally, the government stimulated the domestic market through effective controls on the exchange rate and imports, creating a highly protectionist environment in which young businesses could grow.⁶¹

59. Dohner and Intal, "The Marcos Legacy," p. 376.

60. Frank H. Golay, *The Philippines: Public Policy and National Economic Development* (Ithaca, N.Y.: Cornell University Press, 1961), p. 408.

61. *Ibid.*, pp. 411-414.

