

COMPARATIVE PLANNING STRATEGIES IN EAST ASIA AND LATIN AMERICA

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Paper presented at the Conference Regional Integration in the Americas and the Pacific Rim. February 28 - March 1, 1997. *Post-doctoral fellow at the Institute of Economics, University of Campinas and Professor at the State University of Maringá.

ACKNOWLEDGEMENTS . This paper was written under the auspices of the Project on Latin America and the Pacific Rim at the University of California, San Diego, where I was visiting fellow in January 15 - March 15, 1997; financial support for the UCSD Project has been provided by the Ford Foundation, the John D. and Catherine T. MacArthur Foundation, the Title VI program of the U.S. Department of Education, and the Institute on Global Conflict and Cooperation and the Pacific Rim Research Program of the University of California.

Many people have contributed to this research project. Asian researchers Sayuri Kuwabara, Suthiphand Chirathivat and Taik-Hwan Jyoung as well as Latin American Hernan Gutierrez have been exceedingly helpful in discussing the subject of the paper and in providing me insightful comments and advises.

I wish to acknowledge my special debt of gratitude to Professor Peter S. Smith and Lawrence Krause as senior advisers and coordinators of the Regional Integration in the Americas and the Pacific Rim Project. I should also say thank you to my Brazilian adviser Prof. Dr. Gilson Schwartz for his strong commitment to this initiative and kind friendship. None of them, of course, are responsible for the views expressed in the paper.

INTRODUCTION

Since the end of the World War II development theory has focused on metaphors like "big push," "vicious circle of poverty," "dual economy," "declining terms of trade," "take off". More recently, mainly after the successful East Asian development experience, physical capital formation versus human and social capital, import substitution versus export promotion,

central planning versus free market or developmental states became dominant frameworks in many research programs. The debate is still open ended.

For numerous economists, the general good of a country will be promoted by competitive markets and integration into the world economy. From the macroeconomic perspective, price stability, high employment and an equilibrated external balance are the main factors that lead to economic development. Recently, a series of prescriptions to be implemented by developing countries aiming at the stabilization of their economies was developed and became known as the “Washington Consensus” or the “Manual for Technopols.”¹

Basically, the prescriptions of the Washington Consensus of 1989, with the additions of two items when it was revisited by Williamson in 1996,² include: fiscal discipline, public expenditure priorities, tax reform, financial liberalization, exchange rates, trade liberalization, foreign direct investments, privatization, deregulation and property rights. The two additional items are: a) Institutional building: build key institutions like independent central banks, strong budget offices, an independent and incorruptible judiciary, and an agency to sponsor productivity missions, and b) Improved education: increase spending on education and redirect it toward primary and secondary levels.

These economic reforms were extensively implemented in Latin American countries in the 1980s and 1990s. Adjustments and trade liberalization were implemented from the small Chilean economy, back in the seventies, to the large Brazilian economy in the 1990s. Argentina since 1989, Peru since Fujimori in 1991, Venezuela since Andrez Perez in 1989 or Bolivia since 1985 are just some other examples. Mexico, up to 1994 was the example to be followed for South American countries. However, after its financial crisis the problems it had been suffering for more than a decade became clearer, i.e. low economic growth with profound income inequalities that provoked social disturbances and destabilization of the ruling party. Although Latin American countries stabilized their economies economic growth has been low.

¹ WILLIAMSON, John. (Ed.) **The Political Economy of Policy Reform**. Washington: Institute for International Economics, 1994.

² WILLIAMSON, John. The Washington Consensus Revisited. **Development Thinking and Practice Conference**. Washington: Inter American Development Bank, September 1996.

The Washington Consensus, and, broadly speaking, other integration initiatives in the Americas undertaken in the 1990s have not included unemployment and development issues or more simply, economic growth in their agenda. With the exception of Chile, all other Latin American countries have not achieved high, sustainable growth rates.

The question then becomes: from so far successful stabilization policies and liberalization processes to what? Should they emulate the East Asian experiences in the productive sector as proposed by some economists³ or should they design their own development model? Is the Washington Consensus wrong or just insufficient in its prescriptions for development?

While Latin American economies suffer from low growth, East Asia has been growing faster than ever, reaching their economic “maturity”.⁴ One of the basic differences between East Asian countries and Latin America not well explored by Latin American researchers seems to be their economic planning efforts. While the latter have been managing their economies within a short-term horizon, the former have been guiding theirs through long-term national development plans. Japan and South Korea, for example, have been planning their development since the 50s and the 60s. If planning for economic development is not useful, why they are still doing it?

Planning seems to be the best tool that any government has to push for a desired model involving both the private and the public sector. The government becomes a key actor conditioning economic expectations. It can do so by providing public goods such as stable macroeconomic environment or public financing for private companies. It also can establish clear goals and the rules of the game (that is, a suitable institutional framework). Are long-term national economic plans helpful to foster economic development? Are they supposed to be carried out considering detailed goals and means or just some broad guidelines or “visions” like the present Japanese style?

To review the Japanese and Korean long term national planning experiences and highlight some of their strategic issues is one goal of this paper. Describing the past Brazilian

³KAGAMI, Mitsuhiro. **The Voice of East Asia: Development** implications for Latin America. Tokyo: Institute of Developing Economies, 1995.

⁴LINCOLN, Edgard J. **Japan, facing economic maturity**. Washington: Brooking Institution 1988, 298 p.

planning experience so as to arrive at some suggestions, based on the East Asian economic development, is another objective of ours.

Not only Brazil but other countries in Latin America have been implementing neo-liberal economic reforms to control inflation and to curb government deficits. They have been trying to increase their competitiveness and have been doing their best to generate savings for productive investments. These efforts have not been enough, and if Latin America keeps on relying heavily on foreign funding and investments potential risks may follow.

Most of the financial inflows to Latin America have been used to offset chronic trade deficits instead of boosting greenfield investments. These flows cause overvaluation of domestic currencies, which in turn exacerbates trade problems. One of the major debates in Brazil after the implementation of the Real Plan has been on the appreciation of the exchange rate. Since the enactment of the plan the management of exchange rates has been one of the most salient political issues in Brazil. In the long run not only the currency should be better managed but also all the country's other capabilities and policy alternatives. To better do it, why not look to East Asian strategic pragmatism industrialization process to see if there is some lessons to be learned?

THE JAPANESE LONG-TERM NATIONAL PLANS

Broad indicative macroeconomic plans instead of detailed planning directives became the most suitable way for the Japanese government to manage its economy in the postwar period. In 1946, under close control from the Allied Powers, the Economic Stabilization Board was set up to plan, implement, and inspect all aspects of economy policy. It had authority to manage foreign trade, credit, production and consumption. Its first recommendation was a radical program of reconstruction to mobilize all available resources toward basic industries like coal and steel. To finance those industries the Reconstruction Bank was created and the scarce foreign exchange was rationed strictly to achieve the production targets in basic industries.

The pre-war production levels of steel and coal were soon reached through the successful implementation of the Highest Priority Strategy for Industrial Reconstruction. Miguel Urutia proclaims that "The Japanese experience shows the potential benefits of adopting clear economic-policy guidelines designed by a council that is independent of the particular sectoral interests usually represented in the traditional ministries. The success of the

strategy will depend on whether the many independent government agencies will follow those guidelines closely.”⁵

Guidelines have been followed and continuously established by the Economic Stabilization Board, reorganized as the Economic Deliberation Board in 1952, and as the present Economic Planning Agency in 1954. Japan’s economic recovery was completed and government priorities were shifted to economic growth. The agency has made economic plans to provide economic projections and growth targets to the private sector and to help coordinate economic policies and activities. The Ministry of International Trade and Industry, and the Ministry of Finance have been working close to the agency not only in the designing phase of the plans but also in their implementation.

The first comprehensive national plan - the Economic Recovery Plan, was drafted in 1948 to avoid the imminent confusion of the reconstruction period and to provide background information for the government to request U.S. aid. In the first postwar decade the Japanese government carried out a strategic allocation of scarce foreign exchange through a foreign-exchange budget for imports, while at the same time was committed to a free-enterprise mixed economy. Combining an industrial policy and a foreign trade policy, the Ministry of International Trade and Industry, which started in 1949, was determined to control the allocation of resources and implement an industrial policy.

In order to enhance the voluntary development of private business under the strict restrictions of foreign exchange availability, the ministry aimed at an industrial policy management of direct and indirect control which might make up competition and regulation. The most common direct regulations implemented by the Japanese government were special legislation like licensing and land-use regulations, and administrative guidance. The indirect ones were related to infra-structural development, taxation, subsidies and policy-based finance.

Following Kato et al.⁶ the most distinct element of Japan’s industrial strategic policy “is the cooperative relationship between government and industry, each of which recognized the necessity of striving toward common goals. This relationship is reflected most clearly in

⁵ URUTIA, Miguel. New approaches to development planning in **Development planning in mixed economies**. (ed) Miguel Urutia and Setsuko Yukawa. Tokyo: The United Nations University, 1988 359 pp. p.10

⁶ KATO, Kozo et al. **Policy-base finance: the experience of postwar Japan**. Washington: World Bank discussion paper 221, 1994, p. xii.

emergence of the “deliberative council system”. The council provides the public and private sectors with a forum for coordinating, which had been well established by the 1960s when almost all important industrial policies were decided in their respective councils. These councils were formed with industry representatives, former bureaucrats, academics, and others, thus ensuring that the broader range of interest could be captured and then synthesized into a policy directive. Without a council’s reaching a consensus, it is unlikely that policy would materialize as intended.”

Instead of concentrating on planning in the public sector, the Japanese government, mainly the Economic Planning Agency, developed a special methodology that would diminish uncertainty in the private sector and facilitate the managed elimination of the specific types of state controls that were set up during the war and continued, in a changed form, during the after-war period. Gradually, the objective of planning became the creation of national consensus on the broad economic policies needed to achieve rapid growth and to raise the level of well-being for the population.

After the Economic Recovery Plan, Japan persisted in elaborating long-term economic schemes with the Five-Year Plan for Economic Self-Support in 1955, and the New Long-Term Economic Plan in 1957. In 1960, the Ikeda Cabinet approved a proposal of the Economic Planning Agency for an Income Doubling Plan which provided the framework for the high economic growth that followed. The National Income Doubling Plan for 1961-70 became well known because of its broad scope and long-term nature, and also because Japan was then entering the period of more than 10% annual growth. It attempted to develop social overhead capital, human resources, science and technology to accelerate industrialization and eliminate the dual industrial structure, and to promote export.⁷⁷

The plan was a tremendous success and became the symbol of Japan’s postwar period of rapid economic growth. By the target year of 1970, the GNP had exceeded the initial goal by more than 50%, and the initial plan to double the income in ten years actually culminated in a threefold increase. Kouichi Tani says that “It was the economic plans of the second post-war decade that established effective procedures for comprehensive indicative economic planning which mobilized the nation to build an independent national economy through rapid industrial

⁷ OKITA, Saburo. *Steps to the 21st Century*. Tokyo: The Japan Times, 1993. Part I.

transformation.”⁸ The names of the postwar long-term Japanese plans as well their respective governments and policy objectives are listed in the Appendix 2.

After the early 1970s and during the 1980s, changes in the domestic as well as the world economy, like the higher Japanese standard of living, the two oil crisis and the stagflation they brought about in industrial countries, the floating exchange rate system, the Japan's increased role in world trade, its surpluses in the balance of payments, etc., have prompted planners to pay more attention to the improvement in the quality of life and restoring equilibrium in the international balance of payments. These issues can easily be noted in the policy objectives of the plans. Since the late 1980s and beginning of the 1990s, the plans increasingly focused on the development of new technology, market liberalization, overseas investment and the problem of aging population.

Disregarding periodic fluctuations, the postwar Japanese economy is basically a dynamic and growth-oriented one. The dynamism and growth-oriented plan targets such as GNP growth rates, inflation rate and balance of payment even though, often very different from the initial plan figures, were frequently revised by the Economic Planning Agency in order to better guide the social and economic development. Japan's economic plans were indicative in nature and provided desired targets plans and projections for various areas of the economy that are consistent with the government policy priorities and the underlying capabilities of the economy.

Japan's national economic plans were broadly based in the way that they were made. In the process of planning, a broad process of participation and consultation had to take place in order to form consensus in the government and to coordinate the policies of various ministries. To better do it, instead of the Agency having its own personnel, the majority of its officials were and still are on loan from other government agencies, particularly from the Ministry of Finance and the Ministry of Industrial Trade and Industry. Since any minister in the cabinet can veto the plan during its drafting, their views are incorporate in it.

The Economic Planning Agency serves as the secretariat of a top advisory committee to the Prime Minister, - the Economic Council, instituted to deliberate on important economic policies and to formulate long-term economic planning. The Agency assists the Council in the

⁸ TANI, Kouichi, Economic Planning and the market economy: experience in post-war Japan. In **Development planning in**

technical tasks of projections and estimates following the major goals of the plan provided by the Prime Minister. After the Council's deliberation on various policy aspects of the goals, the Agency works on its policy implications in close consultation with other ministries. When the plan is completed, it is submitted by the Economic Council to the Cabinet for approval. Once approved it becomes the official National Economic Plan.

Once the plan is adopted by the Cabinet, Hsu remarks that "...various plans and programs of the government such as the National Land Use Plan, plans for regional development, or public investment plans, as well as the policies of each ministry, are expected to be consistent with it. In addition, because all government ministries and agencies and public enterprises have to submit budget requests for deliberation and approval by the ministry of Finance, the latter makes sure that the approved budget is consistent with the economic plan. In this manner the plan is integrated into the government budgeting process for implementation."⁹ Economic policy development encompasses both macro-economic and sectoral policies. Economic planning has been used to set up macro-economic guidelines, which have been successfully used to integrate individual sectoral policies.

Throughout these above mentioned actions, the Japanese government guided both the direction and the pace of the country's industrialization. It acted by setting ends instead of dictating means. Companies were free to implement policies as they wished. Government's actions were related to restructuring industries in order to make sure there was a half-dozen viable companies competing in any given field of activity. Setting ends at the top but having efficiency of means accomplished by competition at the bottom of the system fully preserves the benefits of freedom at the bottom of the system while retaining the advantages of coordination and united purpose at the top.

Government's actions in Japan have been motivated not only by the potentially superior information on sectoral prospects enjoyed by government agencies but also by the existence of dynamic externalities, which private agents could not take into account in their project calculations. The agencies have strong capacity in monitoring behavior, verifying outcomes and enforcing contracts. The government, besides being the provider of security, justice and

mixed economies. (ed) Miguel Urutia and Setsuko Yukawa. Tokyo: The United Nations University, 1988 359 pp.

⁹ HSU, Robert C. **The MIT encyclopedia of the Japanese economy.** Cambridge: The MIT Press, 1994. p.111.

infrastructure is the most capable agent that can mitigate the private interests with those of the whole nation.

Within this scheme, Urrutia concludes that “The Japanese experience is instructive because it points towards the useful role that long-range planning can play. By creating a consensus of what major problems an economy must overcome, the planning process can organize the inevitable negotiations between the different economic agents by facing them to accept certain basic premises. This limits the degree of conflict between them and makes economic policy decision-making more rapid and more consistent.”¹⁰**10**

THE KOREAN FIVE-YEAR ECONOMIC PLANS

Discussing the role of the government, business and entrepreneurship in the Korean economy development, Jones and Sakong note that “the “Korean miracle” is not a triumph of laissez faire, but a pragmatic non-ideological mixture of market and non-market forces. Where the market works, fine; where it doesn’t, the government shows no hesitation in intervening by means that range from a friendly phone call to public ownership.”¹¹**11** Performing in this way and often putting economic growth above most of other concerns, the Korean government has made economic development a major focus since the liberation and in a more explicit and intense way since the sixties.

First with emphasis on import substitution and, later, on export-oriented production, the government utilized a development strategy that includes not only capital and credit control policies for the promotion of industrialization, but also policies related to keep peaceful industrial relations and a well-educated, skilled labor force. Large amounts of U.S. military and economic aid, as well as a good elaboration and implementation of economic plans are also significant parts of the Korean economic development.

In any society the development process consists in a great number of decisions taken by economic agents who shared overlapping or contradictory preferences, both with respect to the nature of the process and to the outcomes which it produces. The wiliness and expectations of the individuals about their own ends and the means by which their ends can be achieved, as well

¹⁰ URRUTIA, Miguel. New approaches to development planning. in **Development planning in mixed economies**. (ed.) Miguel Urrutia and Setsuko Yokata. Tokyo: The United Nations University, 1988, 359 p. p11.

¹¹ JONES, Leroy P. SAKONG, II. **Government, Business, and Entrepreneurship in Economic Development: The Korean Case**. Cambridge: Council on East Asian Studies, Harvard University, 1980. p.3

as the rules of behavior which constrains others and themselves, have been considered in the formulation and the implementation of national economic plans. Government planning for long has been one of the main issues in the fast growing Asian economies. A chronological view of the South Korean long term national economic plans are presented in Appendix 3.

Up to the 1960s, South Korea developed its economy without having any special national economic plan. It was the military government that took the responsibility to not only design the plans but also implemented them. During almost all of the period of President Park's government (1961-79), until mid 1970s, Korea was characterized by the state's penetration in all sectors of the economy. Although, his government started to reduce its direct participation in economy in some way because of the increasing complexity of the country's economy. This military government soon started its hard regulation by condemning the bureaucrats', bankers' and businessmen's activities under the Rhee government (1948-60) and by confiscating all wealth illicitly gained. In 1976, again, 10% of all government employees were punished for corruption and irregularities. The government of President Chun (1980-88) also put the purging of corruption as a priority.

According to Tony Michell "the military origins of the Republic's new leaders in 1961 made the choice of strategies simpler. Armies are not noted for being run on *laissez-faire* or private enterprise principles. Moreover the coup stemmed not from political jockeying but from a fundamental nationalist desire to get the Republic of Korea moving."¹² Also General Park soon acted to change the public structure. The personnel structure of the civil service and the army was reorganized by the promotion of young men over the heads of seniors. Also, the public institutions were remodeled by the establishment of three top ministries chosen to superintend all those engaged in economic affairs: the Economic Planning Board (EPB), the Ministry of Commerce and Industry (MCI) and the Ministry of Construction.

Institutional changes made during military rule, between 1961 and 1964 established the particularly static orientation of the South Korean development. New instruments of economic control and planning were developed. The Economic Planning Board (EPB) was create taking over from a previous ministry the entire budgeting function. According to Cumings, the agency "decides which industries and firms to promote, which to phase out; it closely supervises both

the development and the implementation of planning; along with an official trade promotion agency (KOTRA) it surveys the world for needed markets, capital and technology”¹³ **13**

After the organization of government, decision-making became, between 1963 and 1979, very decentralized on the one hand because of the extensive autonomy given to lower-ranking officials and, on the other hand, because of the increasing number of semi-governmental organizations. Due to the hard purging of corruption, this decentralized structure did not lead to inefficiency. Another characteristic of the Republic of Korea since early 60’s was the capacity of rapid report data, which allowed the President to have monthly statistics about the country’s economy. As part of the restructure of Korea’s economy, President Park’s government ordered all businessmen to join business organizations. Various semi-governmental organizations were created, offering a formal structure for interaction between government and business. Three of them play a very important role.

The Korean Trade Promotion Corporation (KOTRA) explores the potential markets throughout the world for existing products, informing national manufacturers the ones that could be produced. The institution provides training for Korean’s salesmen, maintains Korean Trade Centers throughout the world, provides service about national manufacturers for foreign importers and is in charge of monitoring, monthly, all tariffs and non-tariffs barriers on Korean’s goods. The Korean Traders’ Association (KTA) organizes discussion’s meetings between member companies, gives recommendations to MCI and other institutions, and issues certificates concerning trade, import/export licenses and trade performance. Even though KTA is private, since 1961 personnel have moved from MCI to KTA and vice versa.

The Korea Society for the Advancement of the Machine Industry (KOSAMI) is a typical association of industries and was founded in 1968 as a specialized association of mechanical engineering manufacturers and represents all engineering industries of the country. This society administers the Machinery Industry Promotion Fund, created to encourage Korean’s firms to buy locally. With time, it started to promote strategic industries and the

¹² MICHELL, Tony, **From a Developing to a Newly Industrialised Country: The Republic of Korea, 1961-82**, ILO, p. 60.

¹³ CUMINGS, Bruce. The origins and development of the Northeast Asian political economy: industrial sectors, product cycles, and political consequences. in **The Political Economy of the New Asian Industrialism**. (ed.) Frederic C. Deyo. Ithaca: Cornell University Press. 1987, 252pp. p.72.

administrative and financial support for the potential manufacturers of products capable of replacing imports.

Almost all of these semi-governmental organizations were created by the Government but they have been acquiring more independence from it. Information and ideas on policy often originated inside these organizations are channeled to either the government or to private industry as appropriate. The Economic Planning Board - EPB and these semi-governmental organizations appear to be the core of the formulation and up to some degree the implementation of the Korean National Economic Plans.

Through these plans and a strong emphasis in education the South Korean government built its society with one of the least income inequalities of the world. Increases in the number of educated individuals leads to more competition for well-paid jobs and the increased supply of educated labor in the job market leads to decreases in the relative incomes that can be obtained from elite groups. The Gini coefficient has been used as a rough international standard of income inequality. According to Barrett and Chin "in South Korea the Gini is only .34 in 1964, which may well be an underestimate, and it rises to .38 in 1976. Although the South Korean trend is toward greater income inequality, it should be remembered that any Gini in the .30 to .40 range indicates a level of income inequality relatively low by international standards."¹⁴**14**

Up to the sixties the dependence on aid was high. Following Haggard and Cheng "aid financed nearly 70 per cent of total imports between 1953 and 1962 and equaled 80 percent of total fixed capital formation. Economic assistance totaled \$ 5,74 billion between 1946 and 1976, but 45 per cent of this amount came during the critical years of import substituting reconstruction, 1953 to 1961."¹⁵**15** Multiple exchange rates regimes of this period kept the Korean Won overvalued. The overvaluation discouraged exports while high tariffs and quantitative import restrictions encouraged import substitution.

In the sixties, the first and second national development plan contemplated the outward-oriented industrialization of the country. The banking sector was controlled by the state which provided financial support for exporters at preferential rates and used export performance as

¹⁴ BARRETT, Richard E. CHIN, Soomi. Export-oriented industrializing states in the capitalist world system: similarities and differences. in **The Political Economy of the New Asian Industrialism**. (ed.) Frederic C. Deyo. Ithaca: Cornell University Press. 1987, 252pp. p.30.

¹⁵ HAGGARD, Stephen. CHENG, Tun-jen. State and foreign capital in the East Asian. in **The Political Economy of the New Asian Industrialism**. (ed.) Frederic C. Deyo. Ithaca: Cornell University Press. 1987, 252pp. p.87.

the criterion of credit worthiness. The centralized and insulated political structure outlived the return to democracy in 1964 and allowed President Park Chung Hee to dominate economic policy and to exercise influence over economic agents up to October 1979 when he was killed by one of his security agents. Besides KOTRA, many other semi-governmental agencies became involved in export promotion and the achievement of some export target was not only considered a patriotic goal, to be well celebrated, but, also pecuniary incentives and national awards were given to successful exporters.

The primary goal of economic policy became growth through exports. In 1964 the Won was devaluated and a sliding-peg system of adjustment aimed at preventing real appreciation of the currency was introduced. Incentives designed to channel resources into export activities as direct cash payments, permission to retain foreign exchange earnings for purchasing imports and the exemption from virtually all import controls and tariffs to exporters were established.¹⁶ **16**

Exporting was identified as the criterion of resource allocation, and the performance of firms, banks and the bureaucracy was closely monitored with some target in mind. Protection was high in industries without strong export prospects and low in internationally competitive ones. The labor-intensive character of exports were ensured of funds by financial-sector policies, while fiscal policies focused on establishing a financial surplus that could be also channeled to good performers. The government also extended special temporary tax privileges to key industries and tax concessions for exporters.

Korea's outward-looking trade strategy of this period contributed to the overall expansion of the economy. A World Bank Country Study¹⁷**17** on Korea shows that export growth accounted for less than 10% of real GNP growth before 1960. Its contribution rose during the 1960s, reaching over 20% in the first half of the 1970s. By the latter half of the decade, about a third of Korean growth could be attributed to the expansion of exports. The role of import substitution became negative, a situation which persisted throughout the 1970s, although it was substantially diminished during the heavy and chemical industry (HCI) drive of the 1970s.

¹⁶ This and the following paragraphs when not cote are based most in OECD Economy Survey 1993-1994 Chapters I, II, and III; WADE and KIM Chapters I and II and in Tony Michell Chapters I and II.

¹⁷ **Korea**: Managing the industrial transition. World Bank Country Study. 1992.

In 1973, President Park announced a shift from general export promotion to a sectoral development strategy focused on HCIs. Target industries included naphtha cracking, steel, metal products, shipbuilding, machinery and automobile production. The change in the strategy was based on political as well as economic factors. The opening of US relations with China made it difficult to keep a strong U.S. military presence in Korea. The Korean government began to seek an industrial base for an independent defense effort that nowadays is estimated to be the world's sixth largest army.

The objective of deepening the industrial structure was a logical response to the internal increasing of salaries in traditional export industries, as well as the increased competition in light manufactures from other developing countries. The potential entry of China in world markets and the successful Japanese penetration in upgraded industrial sectors provided the stimulus to the Korean government to change its development strategy. The government believed that to continue growing, the new direction required large scale investments which could not be undertaken by Korean companies alone and that the leadership of the state be decisive.

The HCIs drive of 1973-79 period was a sector-specific program that relied on an import-substitution plan based on the allocation of credit to large industries. From one-third of total bank loans to companies within sector in the beginning of the plan, the share grew to about 60% in the second half of the seventies. Government relied heavily on its control of the entire credit system and gave conditional preferential access at subsidized rates to private investors to participate in officially-planned projects. Real bank interest rates were negative throughout the seventies.

State-owned enterprises were established in the steel and petrochemical sectors. Selective trade and tax policies were used to promote specific industries, and, sometimes, select companies. The *chaebols* (large Korean companies) were favored by government policies. The share in manufacturing output of the 20 largest groups increased from 7% in 1973 to 29% in 1982. Their concentration is one of the highest in the world. Most of them are family-owned and operate in various markets under common management and financial control. The four largest in the nineties which accounted for over half of the 80 large groups output are the internationally known Samsung, Hyundai, LG and Daewoo.

The government and these companies through a combination of good government policies and high rates of investment produced rapid growth. The average rate of capital formation in the HCI sector, which had increased at the same rate as the traditional labor-intensive light industries during the sixties was nearly twice as high in the seventies. Since the high rate of capital formation was supported, in part by rapid monetary growth, inflation also accelerated and the government in order to minimize the pressure on prices, held the nominal exchange rate of the Won constantly eroding the competitiveness of a wide range of export industries.

Even though the HCI drive was over-ambitious, and it is now widely accepted that it misallocated resources, it must be observed that many of the goals of the policy were in fact achieved. The World Bank country study already mentioned states that “exports of heavy and chemical industries did not quite reached the target of 50% of all exports by 1980, but exceeded the target only a few years later and reached 56% in 1983 ... Industry-by-industry analysis of the HCI sector suggests major technical achievements. POSCO, the integrated iron and steel firm, is arguably the world’s most efficient producer of steel ... It should be noted that, while the industry has become technologically efficient, it was developed with highly subsidized capital and thus may not have been an economically efficient investment in and of itself, although it has provided benefits to the economy in a dynamic sense.”¹⁸ **18**

Shipbuilding raised its share of world markets and operated profitably during the second half of seventies. Consumer electronics that during the sixties were encouraged to subcontract basic labor-intensive processes to Japanese companies achieved a strong competitive position. Even though this industry was not targeted in the HCI drive, its performance carried more investments in the high-technology area particularly in the semiconductor industry. Automobiles had a poor results, and petrochemical and heavy machinery recorded the weakest results of the HCI investments. Overestimation of the demand resulted in substantial unusable capacity and excessive cost in transforming the Korean industry structure in a short period.

In 1973 the GNP growth rate of 14.4% was the highest of all Korean development history and for the subsequent years up to 1980, had an average around 9%. These impressive rates of growth were achieved not only by large investments in the HCI drive but also through

¹⁸ Korea: Managing... p.45.

a well orchestrated economic diplomacy, which led to the rapid growth of overseas construction in the Middle East as well as the modernization of the countryside through the New Community movement. Moving its exports to Europe and others not previously explored areas was also important to the high performance of the Korean economy in the seventies.

At the beginning of 1980s a new shift in policy took place. Structural and macroeconomic imbalances created by the HCI drive were aggravated by the second oil crisis. After the assassination of President Park, a new government which took office in 1980 had to stabilize the economy and to solve financial problems of major industries. Classical adjustment policies were put in place with assistance from IMF and World Bank. Preferential credit tax concession were reduced to limit credit expansion and reduce the budgetary imbalance. The government actions became more functional and less industry or firm-specific.

Even though Korea was the fourth most indebted country in 1980 and the debt reached to US \$ 47 billion in 1985 with the highest debt/GNP ratio of the world (52.5%) it has not had a major debt crisis and its levels has been steadily decreasing since than. The government has preferred to be indebted to foreign lenders rather than be under the bargaining power of the large multinationals companies. Joint ventures with less than majority foreign ownership has been the accepted pattern of investments in Korea.

The new government reduced its role in specific credit allocation decisions and began to reverse its past preference toward large, heavy industry companies by reserving credit for small and medium ones. It sold the commercial banks to private shareholders but it continued to exercise significant influence over banking decisions. New financial institutions were established and some growth in the international activities of domestic banks was permitted.

The government also increased real interest rates, reducing the gap between the organized and unorganized sectors of the financial market and eliminated interest rate subsidies for particular borrowers, reduced the size of special funds, and more generally scaled back the role of policy targeting in lending decisions. Finally, with respect to protection, the Government committed itself to increasing the liberalization ratio, from about 69% in 1980 to 95% in 1988. It revised the customs law in order to reduce product-to-product in protection; lowered the average legal tariff rate by approximately one third and committed itself to further

reductions between 1984 and 1988 and somewhat liberalized the system of controls over foreign direct investments.¹⁹**19**

The 1980s were a period of gradual liberalization of the economy although controls that were to be abolished were not and the liberalization process was suspended from time to time. According to Nembhard “ despite the liberalization theory and rhetoric, government planners and regulators did not find full deregulation and liberalization worth the risk, although they made some of the motions and perhaps appeased some foreign critics with minor modifications. Instead, the ROK has continued to experience high growth rates, economic stability, and low levels of inflation and to sustain and develop dynamic and competitive industries in the 1980s and 1990s, while maintaining many of its controls and regulations, even as the economy becomes more complex and financial markets increasingly developed.”²⁰**20**

EAST ASIAN ECONOMIC DEVELOPMENT PRAGMATISM

In the implementation of national plans in Japan and South Korea, the public as well the private sector have been looking for a focus on strategic specialization that should be based on a competent screening of products or integrated production complexes adequate to the world’s demand trends. They have been paying attention to the implementation of supply-side politics that generate dynamic comparative advantages in the production chains from natural resources to after sales services. They have also been supported by other social and regional development policies. Basically, potential specificities of these national economies have been adapted to a changing world demand.

This process of quickly adapting the country industry structure to the world demand trends have been more successful in some Asian countries than in the Latin American ones. Since the World War II, Japan has been doing it and nowadays “a consensus has begun to take shape ... that although Japan enjoys a vigorous private commerce, at the same time the Japanese government is somehow a participant in Japan’s techno-industrial system. The system seems to have the benefit of some kind of business-governments partnership”.²¹ **21** To the

¹⁹ Korea: Managing...pp. 49-50.

²⁰ NEMBARD, Jessica G. **Capital Control, Financial Regulation, and Industrial Policy in South Korea and Brazil**. Westport: Praeger Publishers, 1996. p. 199.

²¹ HUBER, Thomas. **Strategic economy in Japan**. Oxford: Westview Press, 1994. 173pp. p.1.

distinctive Japanese system, in which certain elements of the economy may have been brought under public sponsorship, Thomas Huber calls strategic economy.

The Japanese “strategic economy” has been the benchmark case for other countries of the region. The experience of planning the development in the city-state of Singapore, even though it did not start its development from the agrarian or raw material base that is typically taken to be the starting point of industrial transformation, is a good example. Recently Edgar Schein²² reviewed the role of the Singapore Economic Development Board (EDB) in the development process and categorizes the various economic strategies from 1960 on in the following way:

- Curing unemployment through import substitution (1961-1965);
- Shift to export orientation and internationalization (1965);
- Shift from labor-intensive industries to training labor for capital and higher-tech industries (1968 -);
- From skill-based industries to knowledge-based industries and services (evolved through the 1970s, articulated in the 1980s);
- Regionalization, the growth triangle, and the development of local industry (1986 -);
- Recent trends in Singapore’s internal evolution - from “Singapore Inc.,” to “Singapore, Unlimited, “ “The Next Lap,” and now “The Learning Nation (1990-).

The commitment of Singapore authorities and common officials to a clear and well-articulated strategy of economy development is very strong. In Schein’s words: “One can think of this as a kind of “strategic pragmatism” in the sense that EDB was very clear about its long-term goals but, at the same time, remained tactically very flexibly in working toward these goals and nimble in solving the day-to-day problems of their clients. To Schein, “strategic pragmatism is a combination of (01) intelligence based on Singapore’s meritocratic selection and promotion policies, (02) a clear long-range vision of wanting to become a fully developed nation, and (03) an extraordinary capacity to identify and solve the immediate problems for themselves, for their local and overseas businesses, and for tourist.”²³

²² SHEIN, Edgar. **Strategic Pragmatism**: the culture of Singapore’s economic development board. Cambridge: MIT Press, 1996. 275 p. p.58.

²³ SHEIN, Edgar. **Strategic Pragmatism** p. 23 and p. 178.

Strategic pragmatism seems to be one of the main issues in the fast economic growth in Asia. Smigelow and Smigelow used the words to describe the way Japan became the second world economic potential in less than a half century. To them “there is no denying that Japan’s private and public economic policy-makers stand out for their always-maintained sense of direction. In that sense, their policy-making can be called strategic. But their strategy is different from the conspirational ones suspected by the Japan Inc. paradigm. As true pragmatists, they have been deriving their sense of direction from the nature of the changing problems to be solved. If there is need for a label on such policy-making, we can think of nothing better than “strategic pragmatism”.”²⁴**24**

The Japanese strategic pragmatism is based in a rational market-oriented public guidance. This guidance is welcome by the dynamic private sectors that are in fact receptive to, and frequently in need of it in order to share the burden of risks that entrepreneurs and the most financially sound asset holders are unable to bear alone. According to Huber “ the essence of modern strategic organization is unity of ends and plurality of means: coordination of many agencies for one purpose. Noteworthy in such a system are both the existence of the structures of coordination and the particular purpose, of objectives, for which they are being employed.”²⁵**25**

Through unit of ends and plurality of means, starting from 1955, after recovering from the war devastation, the Japanese GNP was triplicated in one decade. Following the so famous “Doubling the National Economy Income” it double the GNP in less than a decade and doubled it again in the following decade. The GNP was raised 12 times in just 30 years. Not only this easy to remember economic indicator or the already much criticized per capita income but also social indicators like life expectancy, literacy, per capita supply of calories, etc. improved faster than never before.

Among the economic factors in the Japanese development one of the most significant was its capacity to maintain macroeconomic stability. Macroeconomic stability seems to be very important for encouragement of growth financial savings, the reliance on long-term funds, and especially postal savings. The main objective of the postal savings deposits, including

²⁴ SCHMIEGELOW, Michèle. SCHMIEGELOW, Henrik. **Strategic Pragmatism: Japanese Lessons in the use of Economy Theory**. New York: Praeger, 1989, 212 p. p.12.

²⁵HUBER, Thomas. **Strategic economy in Japan**. Oxford: Westview Press, 1994. 173pp. p.137

ordinary deposits, fixed-sum deposit certificates, time deposits, and installment deposits is to mobilize funds from small savers for social infrastructure investment. The system, besides competing with commercial banks, it also mitigates the inflationary effects of their high levels of loan. Macroeconomic stability, in Japan, prevented the emergence of highly negative interest rates and was combined with export orientation and reliance on the competing large *Keiretsu* groups.

The Japanese industry is dominated by the six largest trading companies called *sogo sosha* that are the core members of the six financial *keiretsu*. They deal with a wide range of products from raw materials to finished products and operate in many countries. Traditional businesses have been in the low margin handling of bulk commodities such as crude oil, chemicals, metals, and machinery. They have also performed the exporting function for small manufacturers who are too small to engage in the export area and have provided credit to small and medium sized companies. They not only serve as “quasi-banks”, since they borrow from banks and lend to companies inside their *keiretsu*, but also serve as general contractors for overseas development construction projects and are engaged in third-country trade where both the buyer and seller are non-Japanese.

Domestic companies were forced to be internationally competitive and attain high levels of efficiency through the export orientation. The system provided some objective criteria for monitoring the performance of the companies activity and assessing the effectiveness of credit and financial support. While in some countries import substitution policies and monopolies by public companies limited the domestic competition, in Japan, product market competition and the link between market performance and credit support, limited the risk of government failure.

Through effective policy coordination, the Japanese government was able to capture the trends of the environment. The credit policy goals were narrowly focused and well coordinated with other policies. They were also oriented to industrialization and export promotion. Foreign exchange, fiscal policies and the tax system were likewise directed toward the same goals. The allocation of foreign exchange was coordinated with domestic credit policies to effectively support the industrial policy goals, extensively discussed with the large Japanese industrial groups.

Besides the cooperative structures and the competitive strategies of the Japanese enterprise system,²⁶ a credible and consistent vision, rather than detailed quantitative plans, emphasizing a priority of industrialization and economic development ahead of financial sector development, was all about the Japanese strategy to develop the country. Administrative guidance was used to discourage lending for consumer credit and financing housing and for encouraging the continuous growth of some large industrial groups.

Industrial strategy in Japan has been changing following the international, as well as national economic pressures. After recovering from the war devastation, when selected industries were fostered, the rationalization and modernization of equipment in heavy industries, as well as the development of the machine tools industry took place. Promoting industrial organization was the main goal of the period. Restructuring of whole sectors of industry that suffered from overcapacity and the smooth adjustment of the declining ones was the following stage and in the 1980s the new industrial policy sought to promote technology, energy conservation, and information network. Accelerated depreciation allowances and tax-free incentives were given to profitable target companies to reinvest their profits and growing faster than others in the non-target sectors.

Much of the changes in Japan's industrialization process was strongly influenced by the government's ability to well manage its credit-based financial systems. Companies' dependence on credit can readily be seen in the high debt-to-equity ratios typical of corporate sector. Using official figures Robert Wade says that "...corporate debt/equity ratios were in the 300-400 per cent range in Japan over the 1950 and up to the 1970s, much the same as in the Republic of Korea in the 1970s, and 160-200 per cent in Taiwan over the 1970s. United States and United Kingdom debt-equity ratio has been around 50-100 per cent."²⁷ Due to this pattern of high debt/equity ratios, John Zysman says that "selective credit allocation is the single discretion necessary to all state-led industrial strategies."²⁸

Besides the credit-based financial systems to support large groups, a policy-focused human capital has been present in the East Asian pragmatism experience. Comprehensive land

²⁶ FRUIM, Mark. *The Japanese enterprise system: competitive strategies and cooperative structures*. Oxford: Clarendon Press, 1992, 397 p.

²⁷ WADE, Robert. *The role of government in overcoming market failure: Taiwan, Republic of Korea and Japan*. in *Achieving Industrialization in East Asia* (ed.) Helen Hughes. Cambridge: Cambridge University Press, 1988. p.132.

reform, universal basic education, promotion of labor-intensive production, a shift to light manufactured exports before heavy import substitution, and a performance based incentives to industry are the core of the policy-focused human capital approach. According to Mc Guire the “approach holds that government polices aimed at redistributing land, skills, and jobs, as well as at guiding and sometimes overriding market forces, are crucial to growth, equity and poverty reduction, and that the volitions of political actors, shaped and constrained (but never fully determined) by historical legacies and social-structural conditions, decide whether or not such policies will be implemented.”²⁹**29**

Correcting the market failures without replacing the markets through industrial polices, cooperation and competition, equality and export-led growth are some lessons from the East Asian miracle recently summarized by Joseph Stiglitz. For him “East Asia’s success was based on a combination of factors, particularly the high savings rates interacting with high levels of human capital accumulation, in a stable, market-oriented environment - but one with active government intervention that was conducive to the transfer of technology”.³⁰**30**

The transference of technology is another common feature of the East Asian strategic pragmatism associated to the shift of some activities that once generated exports, but have become less competitive internationally, by new export-generating activities as income levels of countries rises and comparative advantages changes. Cotton textiles was the first industrial sector in which Japan achieved large scale success in export markets in the years following World War II, but export competitiveness in this industry shifted within East Asian region from Japan to the NIEs during the 1960s and 1970s. As a consequence, this sector fell into decline in Japan and was replaced as the major export sector by new activities. Now, this sector is in decline in the NIEs, but is on rise as a source of exports in other countries, e.g., China. In the former countries other industries have become the focus of export led growth.

East Asian countries have been applying a strategic pragmatic approach in order to put together a particularly mix of actions to correct and adapt their policies in light of actual economic development. Some of these corrections and adaptations sometimes can hardly be

²⁸ ZYSMAN, John. **Government, Markets, and Growth: Financial Systems and Politics of Industrial Change**. Ithaca: Cornell University Press, 1983, p.76.

²⁹ Mc GUIRE, James W. Development Policy and Its Determinants in East Asia and Latin America. **Journal of Public Policy**, 14, 2, 205-242. April 1995.

described as having been inspired by conscious critical rationalism of the economic agents involved. They seem to be the results of the continuous changing battles of political and economic struggles for self-sustained development. Some of these changes may come too late and become more costly than necessary. Timing seem to be a strategic issue of the pragmatic approach in dealing with the development process.

Higher or lower levels of macroeconomic activity, fixed or volatile exchange rates, reducing capacities in declining industries, investments in high-tech sectors of national importance, environment protection, avoidance of political friction with trading partners etc. are all means that the government can manage to correct its policies in order to quickly achieve its ends. Sometimes due to radical and not predictable events the ends also should be changed. The planning activities of Japan, Korea and Singapore for example, provide the framework to the government as well as to the private sector to make the necessary changes when problems appear.

Previous analytical and organizational activity is required on the part of government to design more rigidly defined courses of action. The Japanese Economic Planning Agency (EPA) and the Korean Economic Planning Board (EPB) recently abolished (1993) have been doing this since the fifties and sixties respectively. Despite the growing criticism against these agencies and the planning activity in general, they have been preparing plans for the long as well the short term to better guide their respective economies. If the plans were not useful at all why they have been doing it for long. One possible answer is that through than economic agents as well the government apparatus can act in a more pragmatic way to manage the development once they already have some idea about what should have been done. They provide the framework for the government and the private economic agents to fulfill it.

A REVIEW OF BRAZILIAN DEVELOPMENT PLANS

Since 1930 the Brazilian industrialization process has been based in the import substitution strategy. After the Revolution of 1930, when the notion of National State was reinforced by the new rulers of the country, the industrialization process became the main goal of the country. The world depression of 1930s, followed by the World War II showed the

³⁰ STIGLITZ, Joseph E. Some Lessons from the East Asian Miracle. *The World Bank Research Observer*, vol. 11, no.2 (August 1996).

economic vulnerability and precariousness of a development strategy based in raw materials and agricultural products. The collapse of world markets forced economic diversification, especially into manufacturing, normally sponsored by the State. The State also restricted imports through tariffs, currency reevaluations and other policy measures designed to protect and nurture domestic industry. The emphasis on the production of durable consumer products and capital goods was the core of the Metas Plan in the Juscelino Kubitschek government.

The formulation and implementation of this plan was preceded by some other efforts to diagnose the economy. The Simonsen Report, the Cooke Mission, the Salte Plan, the Abbink Mission in the forties and the Brazil-USA Commission in the first years of fifties are the most important.³¹ This latter study identified some bottlenecks in the economy and the need to update the infrastructure of the country. It suggested the development of some sectors of the Brazilian industry through foreign direct investment in order to bring in financial and technological resources to improve the industrialization of the country. These ideas were all incorporated in the Metas Plan. A stylized picture of the planning efforts of Brazilian successive governments is shown in Appendix 4.

The Plan was implemented through new arrangements like the Development Council and Executive Groups. Some other government agencies like the BNDE (National Economic Development Bank), the Bank of Brazil mainly the CACEX (Foreign Trade Department) and the SUMOC (Superintendency of Currency and Credit) were also part of the state apparatus that designed and implemented the Plan. According to Mattos Dias the components of the Plan can be divided into two broad lines to support the industrialization process: "... First, aligned the government investments in infrastructure and energy, directly executed by the federal government or by state companies. Second, an extensive group of projects related to the installation, broadening and modernization of the industrial sector, of equipment and inputs that had available various kinds of credit and exchanges rates incentives."³²

The results of the Plan was that the economy grew an average of 8.1% a year in the period, reaching 10.8% in 1958, the highest rate of growth up to that period. The structural transformation of the economy can be seen not only in the growing participation of the

³¹ LAFER, Celso. **The Planning process and the political system in Brazil**: a study of Kubitschek's target plan 1956-1961, Cornell University, 1970. (PhD Thesis).

³² MATTOS DIAS, J. L. **O BNDES e o Plano de Metas 1956/61**. Rio de Janeiro: BNDES, 1996. 148 pp. p.49.

industrial sector in the GNP that was 20.4% in 1955 and 25.6% in the last year of Kubitschek government, but, also in its diversification. In qualitative terms, leaders of 1950 - food products and textile - grew in average 6% between 1956 and 1960, while the manufacturing of automobiles and electrical material, products initiate during the period, grew 25% a year.³³**33**

The main problem of the Plan was how to finance economic growth. As fiscal reform was not implemented, the government expanded the monetary base, which caused the acceleration of the inflation. Publicly deficits in the current account and a rising external debt became evident. The concentration of wealth also resulted within the plan, primarily because the income's transference from the under-stimulated agricultural sector to investments in capital intensive industries.

In the firsts years of 1960s, the government was suffering great instability, not only in the economic, field but also in the political one. The Trienal Plan was not as successful as the Metas Plan and the military afraid of the leftists' growing influence in the government and the threats of radical reforms like the land reform, took the Power through a *Coup d'Etat*. Authoritarian generals start ruling the country and imposing their will in the political as well as in the economy field of the nation. In 1964, the PAEG plan was implemented to control the inflation and rebuild some of the government mechanisms to continuously improving the industrialization process and the economic growth. The main goals of the plan were to reduce the public deficit trough tax reforms, growth of tariffs, credit restrictions and a slow down of salaries that became to be manage by the government. In three years inflation was reduced from 65% to around 20% per year but the economic growth did not recover to the levels of the previous decade.

In this period some important reforms took place. Financial institutions began to finance the acquisition of durable consumer goods; commercial banks provided short term loans, the stock market provided funds for investments and a National Housing Bank (BNH) with resources of workers, were developed. It is from this time the experience of monetary corrections through the selling of government papers (ORTNs and LTNs) in order to through real interest rates stimulate savings and the financial capacity of the economy. In the external

³³ FARO, Clóvis, QUADROS, Salomão. A década de 50 e o programa de metas. In GOMES, Angela (ed.) **O Brasil de JK**. Rio de Janeiro: Editora da FGV, 1991. pp.63-65.

front, a reapproximation to the American external policy called Alliance for the Progress, was also implemented.

The period between 1968-73 in some way was guided by two other plans - the Strategic Development Program for 1968-70 and the First National Plan for 1972-74. It was the period that the growth rates were the highest in recent Brazilian history. The rate averaged above 10% in the period, reaching 14% in 1973, with inflation stabilized around 15%. While in the economic sense the country was performing better than ever seen before in the political field, Congress was closed and some of the civil rights were denied by the generals in the command of the nation.

The main sources of growth for the period were the investments of the government in infrastructure, due to the previous fiscal reform and new financial mechanisms created to improving savings, the growing investment of the state companies and the credit expansion to final consumers of durable goods. The sector of finished consumer goods grew more than 20% a year and housing construction, another sector benefited by credit expansion, grew 15% a year in average. Due to the improving trades in the world economy in the period, the country more than doubled the value of its exports.

The Brazilian industrialization process was following the import substitution strategy. Up to the 1950s the consumer goods were implemented and from the Metas Plan to the years of the “economic miracle”, the sector of durable consumer goods was also established. Capital goods and intermediate goods were the sectors that should have been further developed to complete the Brazilian industrial structure. This was done in the second half of seventies. These sectors received special attention in the II Brazilian Development Plan for the period of 1974-79.

To implement the II PND, the State took all the liabilities and kept the economy working with an average rate of growth around 7%. External money was the main financial source of the development in the period. Later, when interest rates were increased, the capacity of the state to continue investing and paying its external debts became very deteriorated. In 1979, the external debt was around US\$ 50 billions and the interest rates began to growth. Inflation in a growing trend was 77%. With the second oil shock, the deficits

in the commercial, as well as in the balance of payments left the country in its worst fiscal crisis to be managed in the eighties.

Before reviewing the problems of the 1980s it is worthwhile to say that the formalization of an industrial strategy as part of the national plans of economic development was an important component, if not the central, of the political economy of the country for more than 4 decades. Following Suzigan and Villela: “...the past experience are some important examples of this practice, like the Metas Plan (1956-61) and the II PND (1974-79). Under strong political command (democratic in the first case, even though with a “parallel administration” for the implementation of the industrial policy, and authoritarian in the second case), in both cases there was a political option for industrial development and a preponderant role of the President of the Republic.”³⁴**34**

In these two mentioned plans there was an indicative structure showing the will of the government and the formal mechanisms to coordinate the instruments and the auxiliary policies between themselves and with the macroeconomic policy. Both plans target specific industries and sector goals were clearly established. The instruments and policies were reasonably articulated and synchronized. It was built as a specific institutional organization with improving specialization and division of functions to implement the policies. Guided by these plans, the Brazilian economy grew as fast as other new industrialized countries up to the 1980s, when the country start suffering its deepest crisis of its history.

A central point in the changed scenario of the eighties were the U.S. political economic changes. Since 1979, the Federal Reserve adopted a restrictive monetary policy to deal with the increasing devaluation of the dollar that had been taking place since the fluctuation of the exchange rates in 1973. The policy restricted credit and made it difficult to finance the American Treasury in order to adjust the economy. When Reagan term began in 1980 and “reaganomics” or “supply-side economics” were implemented, the situation became worst. In order to finance the economy in a situation of restricted credit, the American government rose the interest rates. The international money flew to the U.S. and some countries like Brazil began to live a state severe crisis of adjustment.³⁵**35**

³⁴ SUZIGAN, Wilson. VILLELA, Anibal B. Elementos para discussão de uma política industrial para o Brasil. Brasília: IPEA, Texto para discussão n. 421, 1996. 54 pp. p. 15.

³⁵ BAER, Monica A. **O rumo perdido**: a crise fiscal e financeira do Estado Brasileiro. Rio de Janeiro: Paz e Terra, 1993.

To deal with this situation the III PND was formulated for the year 1980-85. The goals of this plan were completely different from the previous plans. Controlling the external accounts and the inflation were the aspects of the economy that should be managed. Some actions in this direction had already been implemented in 1979 by the economy minister Delfin Netto. His developmental and monetarist program devaluated the currency 30%, pre-fixed the exchange rate, controlled the interest rate, expanded credit to the agriculture sector and created a special agency to control state companies (SEST).

Different from the II PND the III PND was a dead letter. With the increasing instability of the economy, a series of new economic ministers tried to stabilize it and restart the growing process. In 1984 after years of gradual transition the military government was substituted by a new indirectly elected civilian president. The transition was not well carried out and the two political parties - one pro-government, the other against it - were fragmented in many other. Traditional leftist politicians as well as unions and new political parties supported by them reappeared in the political scenario. The diversification of interests and the fragile structures of the political parties was and still is one of the major political problems in Brazil. Consensus about national strategies to develop the country was not reached. Long-term economic plans were not designed and the economy since 1980 has been (miss)managed by a dozen short-term stabilization programs.³⁶**36**

After so many efforts to control inflation the government finally succeeded to do it through a very innovative Plan denominated Real Plan. The Real Plan was implemented in three stages. An orthodox first phase was a fiscal adjustment, implemented with the creation of a new tax on the financial sector (IPMF) and a new social emergency fund that reduced the federal transference to states. Everything was done to try to balance the national budget of 1994 and 1995. The second phase was the introduction of a new unit of value called URV (*Unidade Real de Valor* - Real Unit of Value). All prices were indexed in this new unit that was a kind of semi-currency. It was a unit of reference, or an account unit, to permit the adjustment of the relative prices without distributive conflicts.

³⁶ BRESSER PEREIRA, L. C. The Failure to Stabilise. in **Brasil: the Struggle for Modernization**. Londres: University of London, 1993 and in **Attempts do stabilise in Economic Crisis & State Reform in Brazil**. Boulder, Co Lynne Rienner Publishers, 1996.

Three months later the URV was substituted for a new currency, the Real. In this third phase credit was restricted and interest rates kept high to constrain demand. With the slow down of the inflation, the demand for durable consumers goods increased a lot even though the interest rates were high. People in general were more worried about the possibility of buying goods than the final prices or the interest rates of the products. Due to the international liquidity, the country had around US\$ 40 billions in reserves that were used to import and control the demand.

Inflation was reduced from 50% a month to 30% a year in the first year of the plan. In 1994 the economy grew 5,7% and, in 1995, 4,2%. The economic minister responsible for the plan ran and won the presidential elections. Fernando Henrique Cardoso took office in January of 1995, and besides keeping the inflation under control, has been implementing some constitutional reforms in order to liberalize the economy and increase the development of the country.

The Brazilian difficult macroeconomic experience from 1981-92, with low and irregular growth combined with high inflation rates, prices freezes and high interest rates stagnated investments. According to Armando C. Pinheiro, “the average rate of investments, constant prices of 1980, dropped from 23,3% of GNP in the seventies to 18,2% in the eighties and 14,6% in 1990-92. Public investment, in particular, was strongly affected, dropping from an annual average of 7,4% of GNP in 1980-82 to just a few 5,5% in 1991-93”.³⁷

The country will not grow without huge investments in infrastructure. In some way the present price stability depends on the growth of capital formation in transportation, telecommunications, electric power, etc. The Plurianual Plan of Investments states: “stabilization does not require only a well manage short term political economy. It is necessary to create conditions for more investments and to increase the competition of goods and services internally produced.” For this, the document emphasizes that it is imperative “a substantial increase on infrastructure investments once it was reduced during the last 15 years and left to a

³⁷ PINHEIRO, Armando C. **O setor privado na infra-estrutura brasileira**. Artigo apresentado no III Encontro Anual da SOBEET - Sociedade Brasileira de Estudos de Empresas Transnacionais e da Globalização da Economia, São Paulo, 4 e 5 de novembro de 1996.

deterioration of the transportation systems, the obsolescence of ports, the perspective of energy blackouts and to a technological lag already accumulated in the telecommunication sector.”³⁸**38**

To recover from this deteriorated situation the Plan estimates investments of \$R 153 billion for 1996-99. From this amount 56%, or \$R 85.7 billion, should be invested in infrastructure. It is expected that \$R 30.1 billion, or 35%, will be financed by the private sector. Some government declarations through the press emphasize the privatization of state companies as one of the main source of investments in the following years. The government hopes to receive \$R 75 billion in privatization, being \$R 34 billion in telecommunications, \$R 38 billion in electric power and \$R 3 billion in transportation.

According to Octavio Barros³⁹**39**, a small part of these investments is already coming from American multinational companies that have been reinvesting 80.21% (U.S.\$ 11.33 billion) of their profits and 19.71% (U.S.\$ 2.78 billion) of new money from 1991-95. In 1993-95 American companies invested US\$ 11.2 billion in Brazil, six and a half times more than in China, and almost twice more than in Mexico. During the same period, Japanese multinationals invested U.S.\$ 1.95 billion and Germans around US\$ 1.0 billion. In 1996, around US\$ 7.5 billion, twice more than in the previous year, was expected to be invested, and for 1977, US\$ 10.0 billions should be invested. Of this latter amount, considering the trends of foreign investment in the world in 1995, around 70% will be in mergers and acquisitions, while the other 30% in greenfield investments.

Some potential impacts on the decision-making process of the multinational companies to invest in the Brazilian industry were recently elaborated by Ricardo Bielschowsky, considering two periods: from 1990 to July/94 (Real Plan) and from July/94 to today. Sunk costs were considered by this author highly positive, the size of the market, positive through Mercosul in the first period and positive through increased internal demand in the second period. Human Resources, were somewhat positive and the infrastructure was somewhat negative during these two periods. The level of the exchange rate was considered more or less negative in the first period and the other macroeconomic conditions negative. During the

³⁸ BRASIL, 1995, **Plano Plurianual 1996-1999**, Ministério do Planejamento e Orçamento.

³⁹ BARROS, Octavio de. **Tendência do investimento direto no Brasil e no Mundo**. São Paulo: SOBEET. Relatório 006/96. Julho de 1996.

second period, from July/94 to the present, a question mark was the best response for these latter two conditions.⁴⁰ **40**

The questions and challenges of the international competition and technological modernization are not only restricted by macroeconomic conditions but also by microeconomic factors. Rationalization and restructuration have been taking place since 1990's in Brazil and in Latin America, but as stated by Mortimore, "The main problem is that pre-existing foreign companies have been implementing defensive strategies of rationalization which became obstacles to potential new foreign investments in these industries. As these companies, relatively inefficient, less modern and not competitive at the international level fill up important spaces of the national market through established systems of distribution and commercialization, new investors are dealt strong disincentives to make significant investments for modern and internationally competitive plants due to the lure of other places where they do not have the problems of displacing the existing subsidiaries".⁴¹ **41**

Brazilian development based on state companies, multinationals and domestic capital seems to be definitely over. The Brazilian fiscal crisis was not overcome and the state capacity to invest, or to finance investments, is very low. Even though the government seems to be successful in its last stabilization plan the economic growth process is very short. Considering past successful economic development plans it seems reasonable to conclude that the government should design new development plans to guide the economy to growth and to improve the living conditions of already 150 millions inhabitants of Brazil. What are the strategies that should be considered in the formulation of a new plan?

FINAL REMARKS

In the East Asian countries U.S. Occupation abolished the political and cultural power of the landlords as a class, essentially finishing what Japanese colonialism began. The situation in Latin American is the opposite. Latin American elites retain juridical, political and economic power as a status group with large landholdings, great political influence and a enormous informal influence in the countryside. In addition, not only large multinationals but also strong

⁴⁰ BIELSCHOWSKY, Ricardo. **Investimento direto e o financiamento do desenvolvimento no Brasil**. Presentation in the III Encontro Anual da SOBEET. 4 e 5 de novembro de 1996. São Paulo.

⁴¹ MORTIMORE, Michael. **América Latina frente a la Globalización**. CEPAL: Desarrollo Productivo N 23. Santiago, 1995.

unions are political players in the countries' policy making process. To overcome all these divergent interests there is no prescriptions in the "Washington Consensus" Agenda.

After more than a decade implementing Washington Consensus prescriptions Latin American countries seem to be suffering from a stabilization fatigue. Even though most of the recommended reforms were implemented or are being implemented, the economic growth is very shy. Most prescriptions are related to the role of the state in governing the economy and not related to economic growth. The Washington Consensus emphasis is to the short-term and not to the long-term economic development. To the Consensus, market-forces alone are enough to build markets and improve the welfare of the population.

Not only the low rates of economic growth but also the recently inclusion of two more items: "institutional building" and "education" are evidences that those prescriptions were not enough to resume the growth process. For an alternative set of prescriptions Latin American countries began to look to East Asian successful economic growth experiences. East Asian countries vary widely from one another in their colonial heritage, geopolitical situation and development process. Their inheritance, endowments and the global environment they have been facing differ from country to country and in different periods of time. Even though their experiences are different they share some similarities that in a very summarized way can be listed as follow:

- Building a more equal society. It is difficult to built an industrial society in a country dominated by large land owners'. The land reform in Japan, Korea, and Taiwan, for example, destroyed the old rigid social power structures and paved the way for future development;
- Political stability and commitment to economic growth. Development is a long-term process that requires some sacrifices in the present to have some benefits in the future. A strong and active state to build a national development consensus was necessary;
- Emphasis in education and technical skills. No country can move towards industrialization if it has illiterate population and if it lacks rudimentary technical skills;
- Institutionalization of the reciprocity principle. The government supports business, when necessary, but never gave them anything for free without a concrete, development

performance standard attached. Close relationship between public and private sector were necessary to establish priorities and implement them with coherence.

- The government assuming the central role in planning the goals and the framework of development. It played a protective and monitoring role of public or private enterprises. When selective industrial intervention conflicted seriously with prudent macroeconomic policy the former is abandoned.
- Raising within a very short time total development investment. Most of the countries raised the human and physical capital formation as well the social infrastructure from 10% of GNP to 40% or more;
- Sub-contracting, outsourcing and original equipment manufacturing. Concentration on a few sectors of industry in which the country could attain comparative advantage. Quick shifting to other sectors observing upward and backward complementarities;
- Rapid expansion of R&D investments. Emphasis in technology rather than science. A very limited reliance on foreign capital which was not involved in transference and development of technology;
- Favorable international economic context in the beginning of the industrialization process. Large amounts of aid and preferential access to developed markets. Maintenance of macroeconomic balances in the domestic and external accounts. Labor-intensive exports, and imports to industry not to consumers, were given priority;
- Building strong, but not large bureaucracies. Well educated bureaucrats from National Universities with international training experience provide rationality to public affairs. Being strong and isolated from political pressures and private lobbying they can adjust development targets, through quick and flexible actions, in line with changes in both the domestic and external circumstances.

Without going through all possible policy-focused East Asian development experiences listed above, this paper emphasized the planning experience of Japan, South Korea and Brazil. Government policies formulated and implemented respecting the long term horizon in Japan and South Korea as well as in Brazil up to the 1980s, have helped these countries grow faster than others. The Metas Plan and the II PND in Brazil were two successful plans. The former was

carried out by a democratic government and the latter by an authoritarian one. They were used to build a national consensus in a desired direction and economic growth was achieved. In the 1980s and 1990s disagreements between public and private sectors have been more intense and long term national plans were not designed, and if so, they were not implemented. Different and not consensual perceptions among the public and private sectors about economic development are still strong in Brazil.⁴²

Increasing cooperation of the public and private sector based on the deliberative councils and numerous industrial associations that characterize Japan and South Korea, played an important role in ensuring the allocation of scarce resources to activities with positive externalities and long-term benefits. Both, Japan and Korea developed effective public and private relationships that contributed to the success of their economic growth oriented policies. Through monthly economic briefing meetings and deliberative councils, they simulated the collection and exchange of information. They also easily monitored direct incentives used to promote consensus and achieve cooperation and coordination. With strong safeguards against abuse they not only influenced the allocation of economic resources but also their effective utilization.

Through economic and institutional arrangements the Japanese and the Korean governments have been stimulating private agents to improve economic growth. Besides the utilization of extensive consultation and create effective monitoring systems they have designed and propagated credible vision. All of them were intensively previously discussed and formalized in the long-term national economic plans. To better guide the industrialization process, macroeconomic stability, export orientation, domestic competition and financial as well as industrial policies were contemplated in the plans. Some other policies related to infrastructure, housing, education etc. were also incorporated in the plans in a way that they could support the industrialization process.

Japanese or Korean strategies emphasized dynamic comparative advantage rather than static cost considerations. In the past government policies directly supported the creation of industries and nowadays are indirectly supporting research and development activities. The emphasis has been to explore complementarities in production for both domestic and export

⁴² SHWARTZ, Gilson. Perceptions of Changes in the Brazilian Development Model. Paper presented at the Conference on

markets where elasticity of demand has been high, technological progress rapid, and labor productivity rises fast.

Most of the Japanese and Korean economic success relies in the strategies adopted. Strategies and policies in the high growth economies have established some similarities reproducible elsewhere. Land reform; government-guided free enterprise emphasizing labor intensive and export-oriented industries; high rates of savings; emphasis on meritocracy based on education; population growth control; acceptance of foreign technology and ideas; political stability; and expenditures for a productive infrastructure are the most visible socio-economic policies that have been followed by East Asian countries.

If determined leaders in Brazil and Latin American countries want to go beyond the recommendations of the Washington Consensus and follow at least some of the East Asian practices, the above listed strategies should be further studied. Besides building consensus the significance of planning is to maintain the coherence of policies. Discontinuities, rather than continuity of government policies, are the common feature of Latin American economies. This is one of the main obstacles to sustained economic growth. If the East Asian strategies are not useful in the Latin American context, other fast growing economies of the Southeast region like Malaysia and Thailand, which are growing at about 10% per year should also be studied.

Appendix 1: A Summary of the Washington Consensus

- Fiscal discipline: Budget deficits, properly measured to include provincial governments, state enterprises, and the central bank, should be small enough to be financed without recourse to the inflation tax. This typically implies a primary surplus (i.e., before adding debt service to expenditure) of several percent of GDP, and an operational deficit (i.e., the deficit disregarding that part of the interest bill that simply compensates for inflation) of no more than about 2 percent of GDP.
- Public expenditure priorities: Expenditure should be redirected from politically sensitive areas which typically receive more resources than their economic return can justify, like administration, defense, indiscriminate subsidies, and white elephants, toward neglected fields with high economic returns and the potential to improve income distribution, like primary health and education, and infrastructure.
- Tax reform involves broadening the tax base and cutting marginal tax rates. The aim is to sharpen incentives and improve horizontal equity without lowering realized progressivity. Improved tax administration (including subjecting interest income on assets held abroad -- "flight capital" -- to taxation) is an important aspect of broadening the base in Latin context.
- Financial liberalization: The ultimate objective is market-determined interest rates, but experience has shown that, under conditions of a chronic lack of confidence, market-determined rates can be so high as to threaten the financial solvency of productive enterprises and government. Under that circumstance a sensible interim objective is the abolition of preferential interest rates for privileged borrowers and the achievement of a moderately positive interest rate.
- Exchange rates: Countries need a unified (at least for trade transactions) exchange rate set a level sufficiently competitive to induce a rapid growth in non-traditional exports, and managed so as to assure exporters that this competitiveness will be maintained in the future.
- Trade liberalization: Quantitative trade restrictions should be rapidly replaced by tariffs, and these should be progressively reduced until a uniform low tariff in the range of 10% (or at most around 20 percent) is achieved. There is, however, some disagreement about the speed with which tariffs should be reduced (with recommendations falling in a band between 3 and 10 years), and whether it is advisable to slow down the process of liberalization when macroeconomic conditions are adverse (recession and payments deficit).
- Foreign direct investments: barriers impeding the entry of foreign firms should be abolished; foreign and domestic firms should be allowed to compete on equal terms;
- Privatization: State enterprise should be privatized;
- Deregulation: Governments should abolish regulations that impede the entry of new firms or restrict competition, and ensure that all regulations are justified by such criteria as safety, environmental protection, or prudential supervision of financial institutions.;
- Property rights: The legal system should provide secure property rights without excessive costs, and make these available to the informal sector.

Appendix 2: Japanese long-term national plans

NAME OF ECONOMIC PLAN	GOVERNMENT	POLICY OBJECTIVES
Economic Recovery Plan (1949-53)	Prime Min. Yoshida	Restoring basic industries such as coal-mining and steel.
Five-Year Plan for Economic Self-Support (1956-60)	Prime Min. Hatoyama	Economic self-reliance; full employment.
New Long- Range Econ. Plan (1958-62)	Prime Min. Kishi	Growth maximization; improving of living standards.
National Income Doubling Plan (1961-70)	Prime Min. Ikeda	Social infrastructure building; export promotion; correction of dual structure and achievement of social stability.
Medium-Term Economic Plan (1967-71)	Prime Min. Sato	Rectifying socio-economic distortions.
Economic and Social Development Plan (1967-71)	Prime Min. Sato	Balanced and steady economic to rectify the accelerated socio-economic distortions
New Economic and Social Development Plan (1970-75)	Prime Min. Sato	Construction of admirable society focusing on socio-economic balance.
Economic and Social Development Plan (1973-1977)	Prime Min. Tanaka	Economic growth focusing on social welfare and promotion of international cooperation.
Economic Plan for the Second Half of the 1970s (1976-1980)	Prime Min. Miki	Enrichment of quality of live and stable economic growth.
New Economic and Social Seven-year Plan (1979-1985)	Prime Min. Ohira	Shift to stable economic growth path; enrichment of quality of life and contribution to the world economy
Outlook and Guidelines for the 1980s (1983-90)	Prime Min. Nakasone	Rectifying trade imbalance; international harmony; budgetary and administrative reconstruction
Economic Management within a Global Context (1988-92)	Prime Min. Takeshita	Promoting and consolidating the shift to a domestic demand economy. Promoting economic restructuring and administrative reform and Opening new frontiers
Sharing a better quality of life	Prime Min.	Establishing a domestic-demand-led economic structure in

around the globe (1992-96)	Miyazawa	harmony with the environment; a better quality of life and coexisting with the global community.
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Sources: Economic Planning Agency - Various economic plans, and SHERIDAN, Kyoko, **Governing the Japanese economy**. Oxford: Polity Press, 1993. 331pp.

Appendix 3: Korea 5-Years economic plans

Name/Planned (actual) economic growth rates	Plan Targets	Principles of industrialization	strategy
The first 5-Year Plan (1962-66) 7.1% (8.5%)	1. Correction of vicious circle of social and economic aspects; 2. Establishment of the foundation of a self-sustained economy.	Adjustment of the foundation industrialization.	1. Correction of structural imbalance in national economy caused by increase in agricultural productivity; 2. Securing of resources supply energy; 3. Expansion of basic industry and sufficient supply of social overhead capital; 4. Utilization of idle resources; 5. Improvement of the balance of payments; 6. Promotion of technology
The Second 5-Year Plan (1967-71) 7.0% (9.7%)	1. Modernization of industrial structure; 2. Acceleration of self-sustained economy	Outward oriented industrialization.	1. Self-sufficiency in food and development of water resources; 2. Establishment of the foundation for rapid development of chemical, iron and steel, and machinery; 3. \$ 700 million worth export performance and acceleration of import substitution industries; 4. Increase of employment expedite family planning measures and restrain population growth; 5. Diversification of farming and increase in farm income; 6. Promotion of science and management technology and increase in productivity.
The third 5-Year Plan (1972-76) 8.6% (10.1%)	1. Balanced growth, stabilization and a balanced economy; 2. Realization of a self-sustained economic structure; 3. To ensure balanced regional development.	The build-up of export-oriented heavy and chemical industries.	1. Self sufficiency in major food grains; 2. Improvement of living standards in farming and fishery villages; 3. Promotion of manufacturing through the build-up of heavy and chemical industries;

			4. Promotion of science and technology and development of manpower; 5. A balanced expansion of social overhead capital; 6. Social security and promotion of national welfare
The fourth 5-Year Plan (1977-81) 9.2% (5.5%)	1. Growth, equity, and efficiency; 2. The creation of economic structure for self-sustaining growth; 3. Promotion of social development; 4. Technological innovation and raising of efficiency.	Development of technological and skilled-labor intensive industries.	1. Self-reliance in investment financing; 2. An equilibrium in the balance of payments; 3. Change in industrial structure and rapid development thereof; 4. Expansion of Saemaul (New community movement); 5. Increased investment in science and technology; 6. Management of economy and system improvement.
The Fifth 5-Year Plan (1982-86) 7.6% (9.8%)	1. Stabilization, efficiency, and balance; 2. Completion of the foundation for economic stabilization; 3. Increase in job opportunity and income; 4. Promotion of national welfare	To attain a stage of advanced industrialization	1. Price stabilization; 2. Nurturing a comparative advantage industries; 3. Maximization of investment efficiency; 4. Promotion of marketing competition; 5. Acceleration of liberalization or market-opening to foreign goods; 6. Resolution of management-labor disputes; 7. Expansion in social development.
The Sixth 5-Year Plan (1987-91) 7.2% (10.0%)	1. Establish self-regulation, fairness, and balanced in the economy; 2. Reforms in land tenure, financial transactions, labor-management relations, concentration of economic power.	Achieving an advance economy with social welfare and balanced growth.	1. Provide a basic social welfare system; 2. Improving the standard of living in rural and fishing villages; 3. Reduce net foreign debt; 4. Promote import substitution of parts and components for HCI; 5. Stabilization through wage and exchange rate; 6. Keep unemployment low 3% and investments 30.7% and

The Seventh 5-Year Plan (1992-96) 7.5%	<ol style="list-style-type: none"> 1. Strengthen competitiveness of industry; 2. Enhance equity and balance development; 3. Pursuing liberalization and internationalization; 4. Providing the basis for national reunification 	Pursuing an advanced economy and society and heading toward national reunification	savings high 32.2%. <ol style="list-style-type: none"> 1. Reorganize the educational and human development system; 2. Dispersing the ownership of the conglomerates and establishing a professional management system; 3. Promote technological development and innovation, and keep pace with the information age; 4. Expand infrastructure and promote the efficiency of the transportation; 5. Alleviate the housing problem, curb real state speculation and pursue measures for environmental protection; 6. Improve the social security system expanding it to farmers and fishermen; 7. liberalize the financial system. Deregulation of interest rates , foreign exchange and foreign investments; Expand service and agricultural market opening to meet international trade norms.
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Source: Adapted from **Korean's Economic Policies (1945-1985)** published by The Federation of Korean Industries, and **The Dynamics of Korean Economic Development** written by Cho Soon, 1994

Appendix 4: Brazilian development and stabilization plans

BRAZIL		
Years	Governments	Plans and Programs
1956-60	Juscelino Kubitschek de Oliveira	Metas Plan (1956-61)
1961	Janio Quadros	
1961-64	João Goulart	Trienal Plan (1963)
1964-67	Gen. Humberto A. Castelo Branco	PAEG- Plan of Economic Actions (1965-67)
1967-69	Gen. Costa e Silva	Strategic Plan for Development (1968-70)
1969-73	Gen. Emilio Garastazzu Medici	I National Development Plan (1972-74)
1974-78	Gen. Ernesto Geisel	II National Development Plan (1974-79)
1978-84**	Gen. João Batista de O. Figueiredo	III National Development Plan (1980-85)
1985-89	<i>José Sarney</i>	<i>Dornelles Plan (Apr./Jul. 1985)</i> <i>Cruzado Plan (Mar./Dec. 1986)</i> <i>Bresser Plan (Jun./Dec. 1987)</i> <i>Rice and Beans Plan (1988)</i> <i>Summer Plan (Jan./Jun. 1989)</i>
1990-91	<i>Fernando Collor de Melo</i>	<i>Collor Plan I (Mar./Apr. 1990)</i> <i>Eris Plan (May/Dec. 1990)</i> <i>Collor Plan II (Jan./Apr. 1991)</i>

<i>1992-94</i>	<i>Itamar Franco</i>	<i>Marcilio Plan (May 1991/Oct. 1992)</i>
<i>1995-...</i>	<i>Fernando Henrique Cardoso</i>	<i>Real Plan (July 1994/...)</i> <i>Multi-Year Plan (1996-98)</i>

** Since 1982 the planning efforts were to stabilize rather than to develop the economy.