

Until Debt Do Us Part

Historical Lessons from South Korea and Brazil on the Interactions between External Finance and National Developmentalism

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External Finance and Development Debates

Neo-developmentalists scholars against reliance on external finance and instead for a reliance on exports to meet foreign exchange needs (e.g. Bresser Pereira)

Problem: no historical examples of this (not even China)

The more successful cases (SK & T) are distinguished by the more generous terms and stable supply of external finance, but not by the intensity of external indebtedness

Structural Weakness of Late Development

Import dependence of late comers leads to chronic trade deficits even if exporting well

Trade surpluses not resulting from austerity are new, but be careful in interpreting (China)

Foreign exchange becomes a specific constraint, distinct from savings (e.g. two gap models)

Constraint is structural: based on the technological and input characteristics of production/consumption

Hence, cannot be overcome through 'right' prices or demand management (neither n/c nor Keynes)

Essentially two strategies

1. Trade: X orientation (and ISI), or;

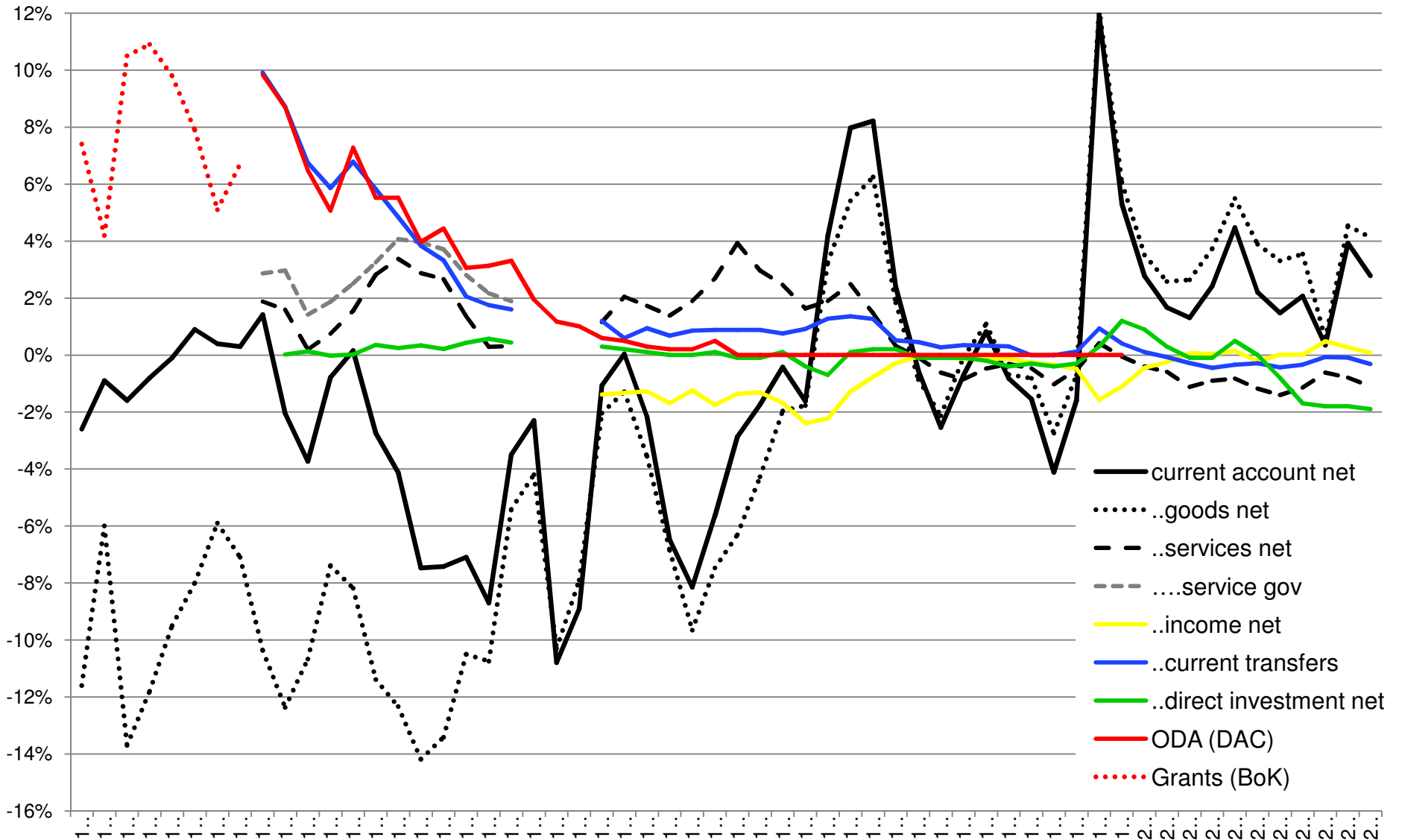
2. Finance: FDI, debt, portfolio (aid)

◆ Usually a mix of both strategies; constraints crucial to understand political economy of development (in addition to standard debates)

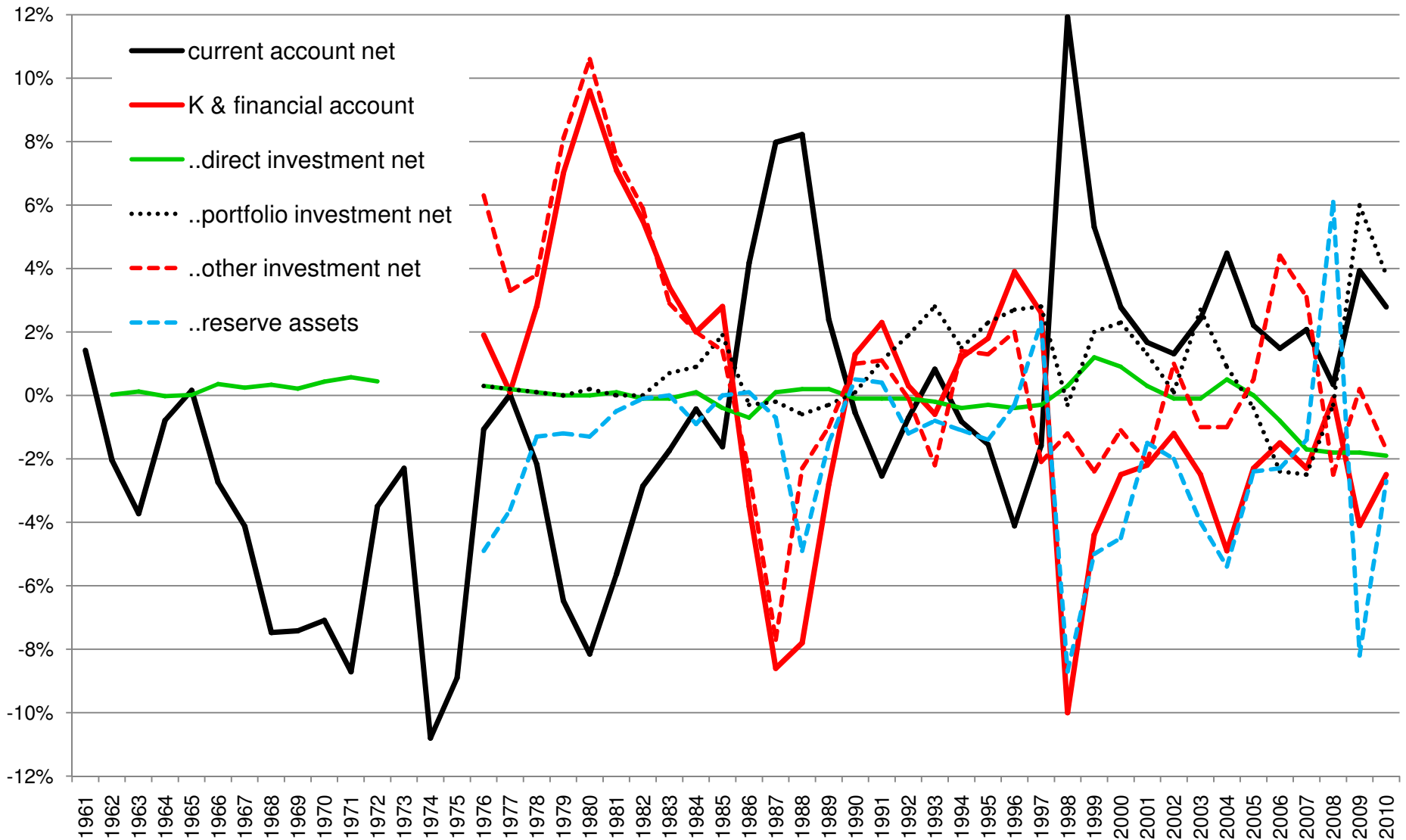
E.g. South Korea: overcomes constraints with aid and official debt

Brazil and China: two different models of dealing with constraints, each with different aspects of vulnerability and perversion

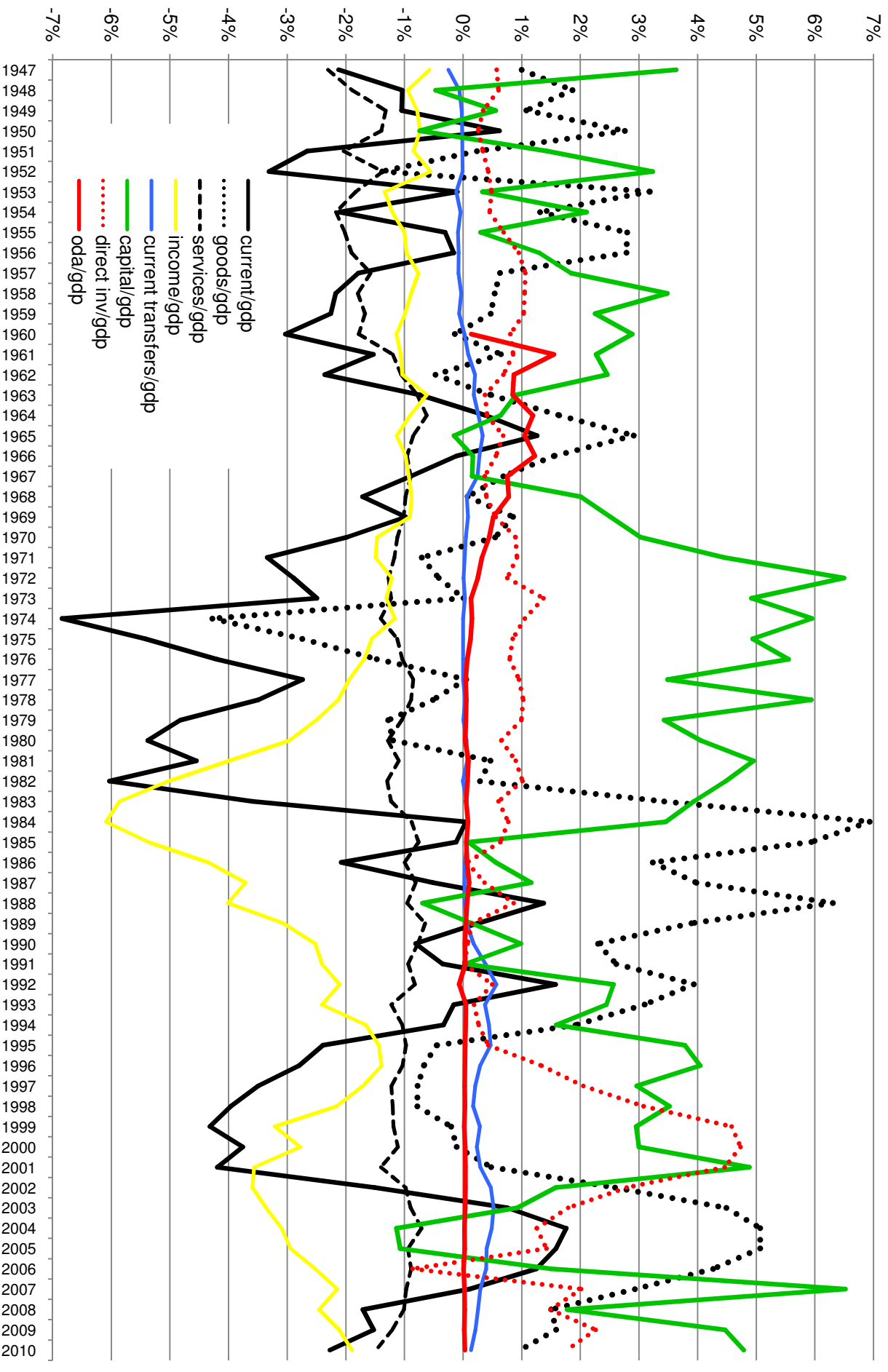
Rep of Korea, Current Account, FDI and ODA, % of GDP (current values), 1953-2010



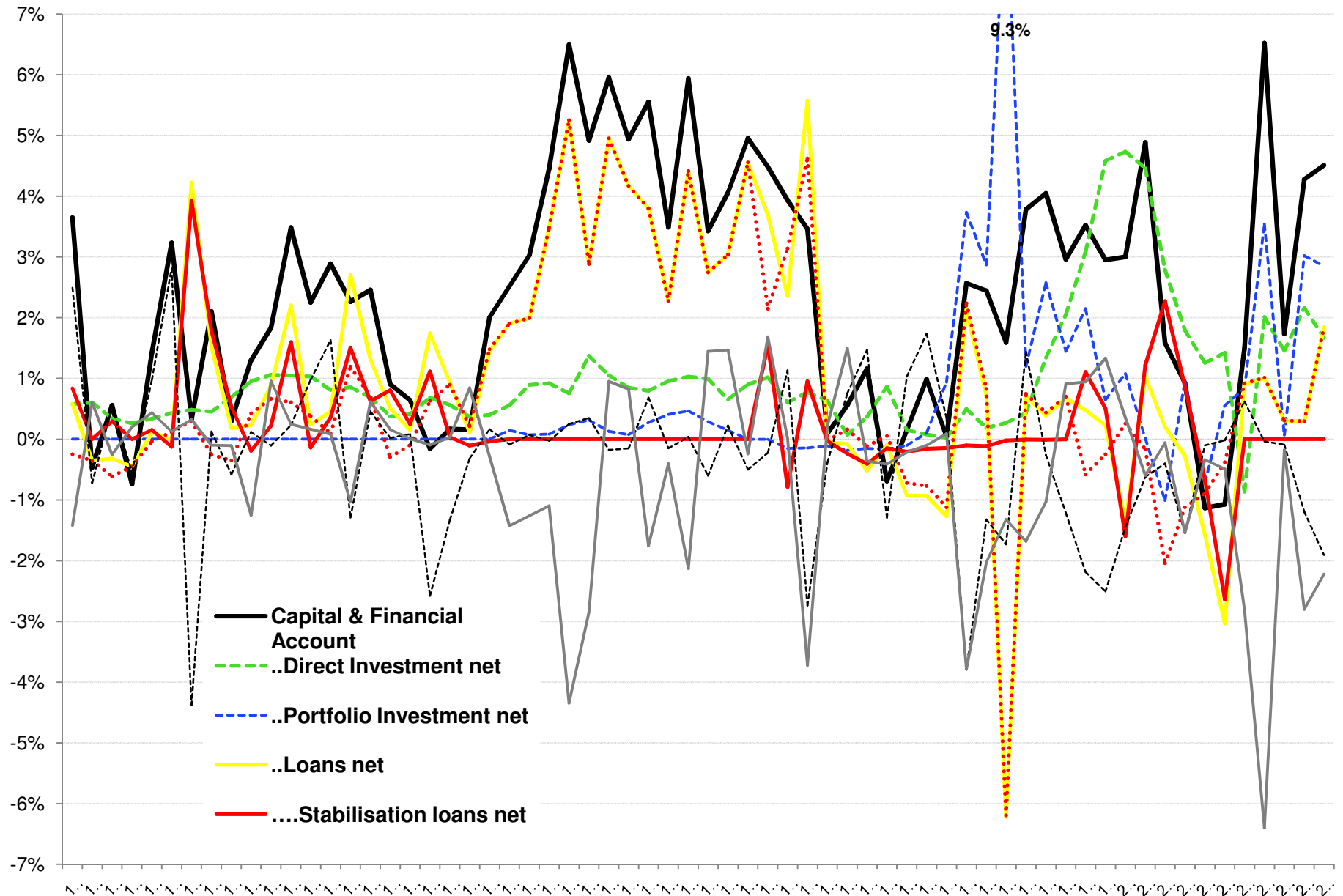
Rep of Korea, Financial Account (with current account as comparison), 1961-2010

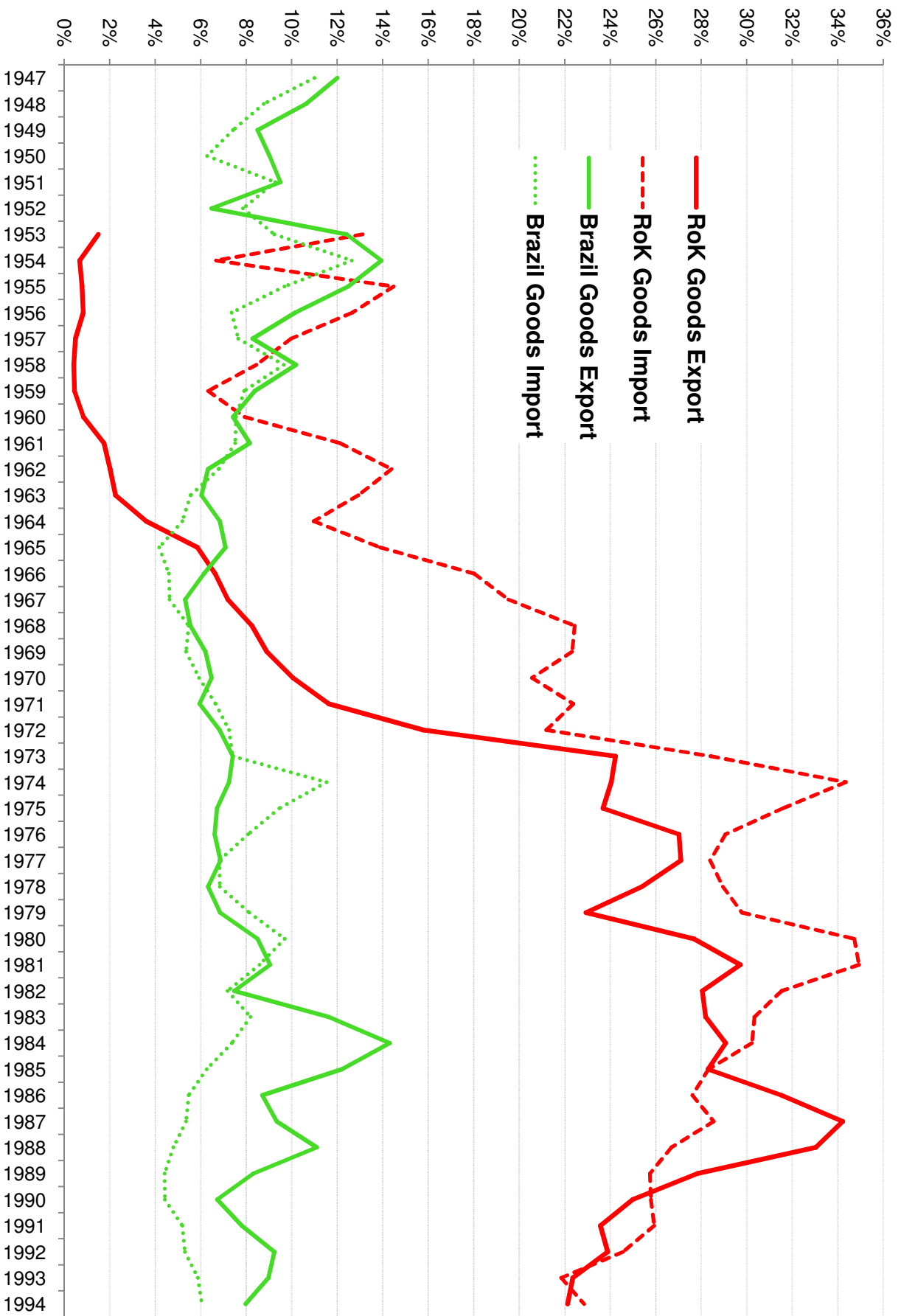


Brazil, Current Account + Capital Account, 1947-2010

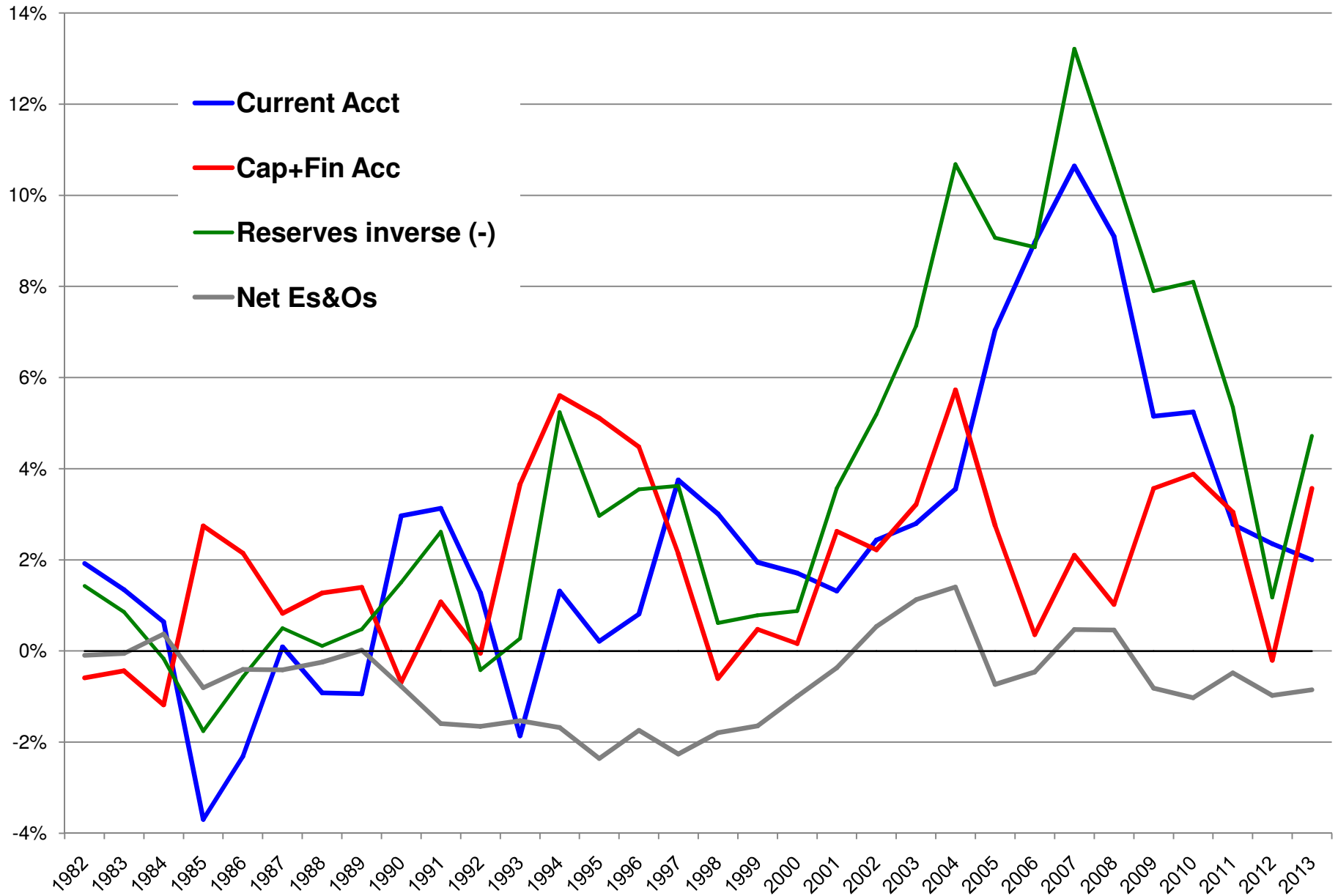


Brazil, Capital/Financial Account, 1947-2010

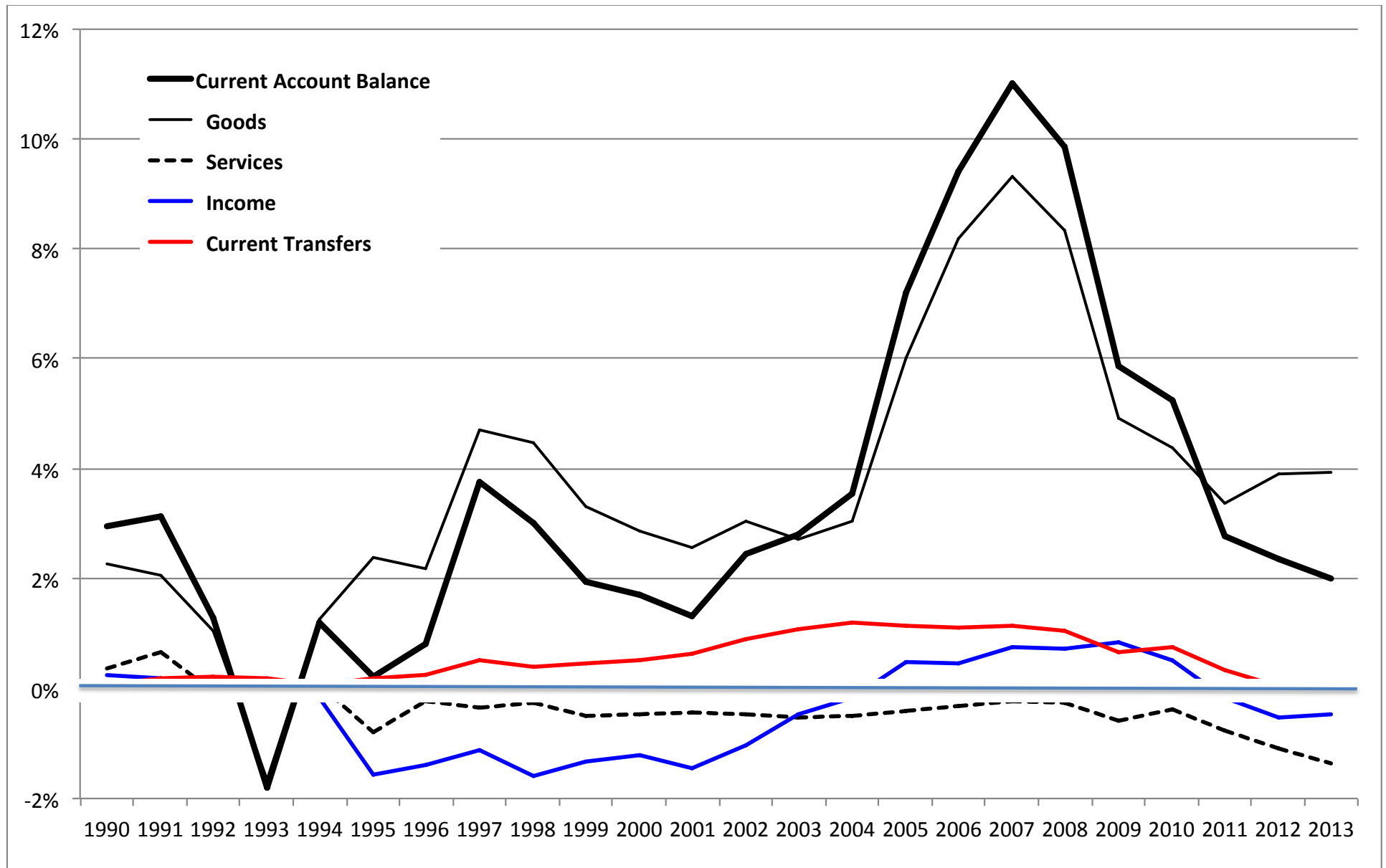




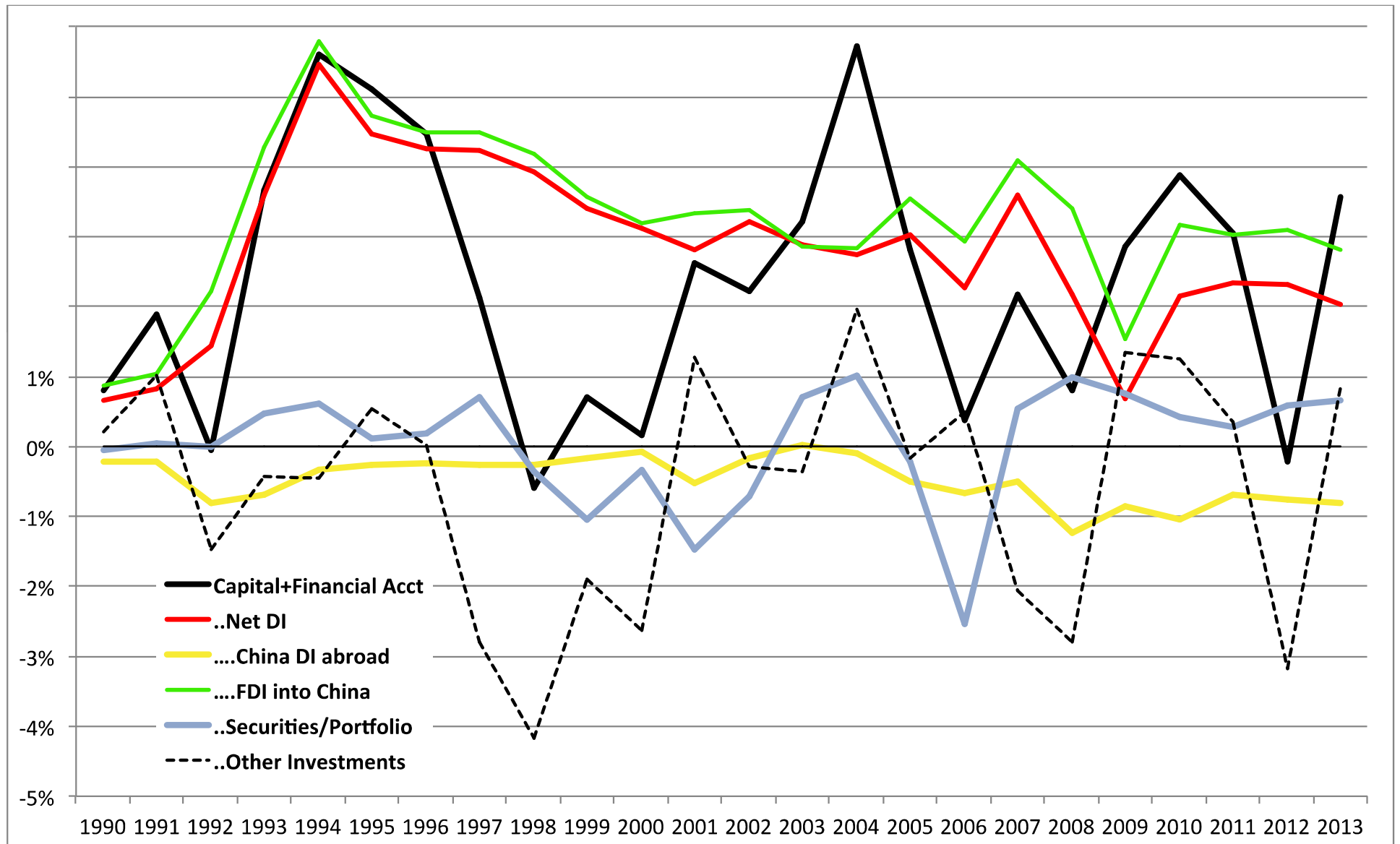
China BoP, 1982-2013



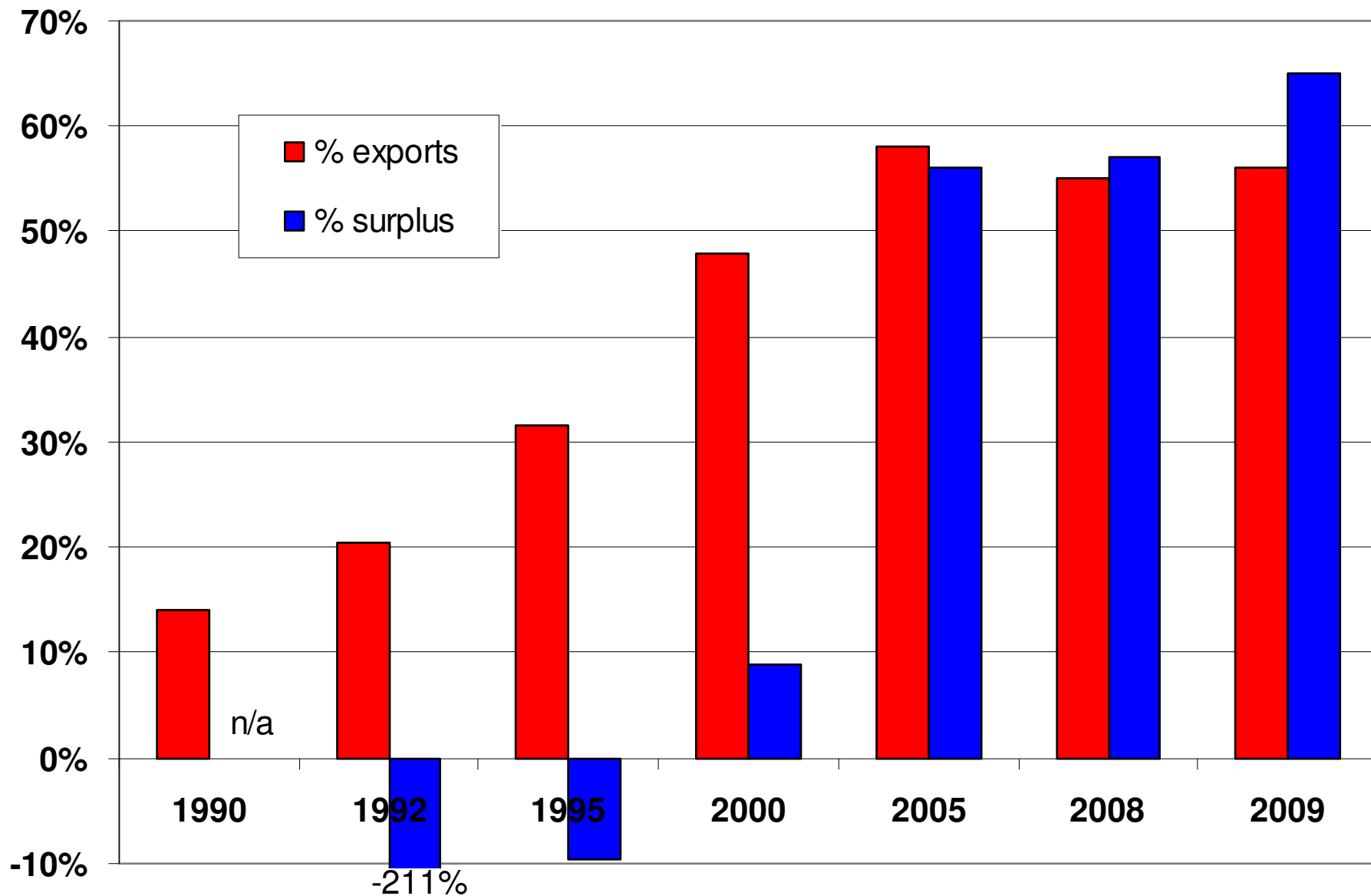
China, current account, 1990-2013



China, Financial Account, 1990-2013



Share of Foreign-Funded Enterprises in Foreign Trade



Sources: calculated from CSY (2010: tables 6-3 and 6-12) and equivalent in previous CSYs

Conclusions...

Developmentalism itself generates need for forex

Redeems concessional public debt financing for developing countries, when supportive or at least tolerant of state-led industrialization strategies and without penalty for trade deficits

Current context obviously not ideal for this, but key lesson is generosity and stability of official flows, not independence from them (and not private)

Recall Arthur Lewis (1978): debt preserves autonomy and sovereignty, versus FDI