

**THE POLITICAL ECONOMY OF AID-ORIENTED FOREIGN POLICY CHANGE:
ELITE PERSPECTIVES ON MERCANTILISM IN KOREA AND GHANA**

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A thesis submitted in partial fulfilment of the requirements for the degree of Doctor
Philosophiae in the Department of Political Studies, University of the Western Cape.

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THE POLITICAL ECONOMY OF AID-ORIENTED FOREIGN POLICY CHANGE:
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Key words

Foreign aid, foreign policy, elite, indebted mercantilism, industrial mercantilism, industrialisation, economic growth, aid dependence, path dependence, Korea, and Ghana

Abstract

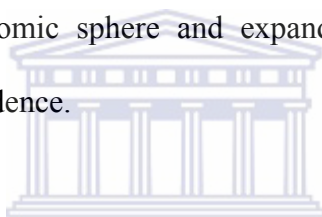
The thesis examines how elite perspectives on foreign aid affect the subsequent path of aid dependence. The focus is on aid-seeking foreign policy change. Two foreign policy change cases are examined for the study, which took place in Korea under Park Chung-hee and in Ghana under Rawlings through a lens of comparative historical analysis. The thesis aims to make two original contributions to knowledge. First, it explains recipient foreign policy using two different forms of mercantilism, and second, it reveals the dependent path created by the mercantilist oriented elite.



Mercantilism in the thesis is used as dual-framed concept. First, it is a lens to see state behaviour. Despite the fact that mercantilism has been mainly used to explain a donor's behaviour, it can elucidate that of an aid-recipient state when the aid-seeking country is in dire need of the foreign aid for the survival of the state. The thesis applies mercantilism to explain aid-receiving countries' behaviour. Second, more importantly, mercantilism also explains elite perspectives. The elite in aid receiving countries search for foreign aid not only for the wealth and power of their state, but also for the prosperity and survival of themselves. Mercantilism is used as an ostensible principle in practicing the private search for advantages of the elite. The thesis uses the dual-mercantilism idea to examine aid-seeking foreign policy in Korea and Ghana. In Korea, the elite saw the key to their survival in industrialising the nation, and their search for foreign aid took place based on that *raison d'être*. In Ghana, on the other hand, the elite found the way to their survival and prosperity in acquiring more foreign aid and the aid *per se* became the ultimate goal. The thesis finds industrial mercantilism a useful framework to understand the elite perspective in Korea. In

order to explain the elite perspective in Ghana, the thesis introduces the concept ‘indebted mercantilism’.

Explaining path dependence country behaviour linked to the diverse elite perspectives becomes the second contribution of the thesis. In Korea, the industrial elite institutionalised industrial mercantilism and turned Korea’s agriculture based economy to light industry and to heavy and chemical industry. In Ghana, the ‘debt elite’ practiced indebted mercantilism, opening an era of abdicating national autonomy in exchange for foreign aid. The loss of autonomy as state’s function to formulate and implement domestic policies without external intervention, began in the economic sphere and expanded towards the political sphere, resulting in continuous aid dependence.



Based on the examination of the cases, the thesis suggests the following findings. In Korea aid-seeking foreign policy change towards industrialisation was an outcome of consensus of the new elite, who did not have a vested interest in land or agricultural business. In contrast, in Ghana, aid-seeking foreign policy was an outcome of fights against enemies within the regime resulting from checks and balances among the elite. In addition, the industrialising elite in Korea designed national economic plans prior to embarking on aid negotiation, but the debt elite in Ghana went to aid negotiations first and economic plans were a product of the negotiations. Also, the industrialising elite used autonomy to achieve their goal, but the debt elite gave up autonomy to achieve the goal. The thesis also highlights the impact of the brain drain on the elite in the two countries. In Korea, nationalistic technocrats were repatriated through systematic efforts led by the opportunistic military elite and became the foundation of continuous industrialisation. However, in Ghana, chronic brain drain affected

not only the pool of competent technocrats but also the remaining elite perspectives on threat of their political position. Lastly, the thesis finds that aid was given to Korea not for altruistic reasons, but out of the self-interest of donors in establishing sustained economic growth in Korea. In Ghana, however, donors' political will or interest was less obvious.



Declaration

I declare that *The Political Economy of Aid-oriented Foreign Policy Change: Elite perspectives on Mercantilism in Korea and Ghana* is my own work, that it has not been submitted for any degree or examination in any other university, and that all the sources I have used or quoted have been indicated and acknowledged by complete references.

Suweon Kim, 25 May 25, 2014

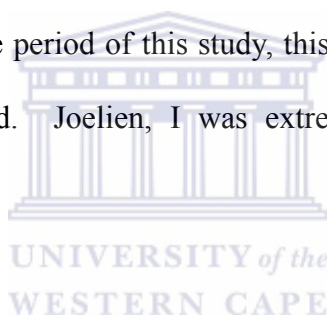
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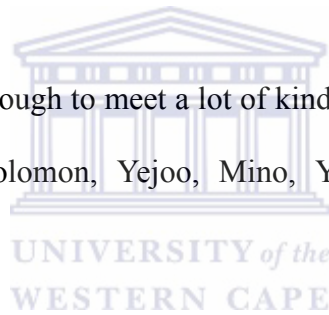
I am sincerely grateful to my supervisor Professor Joellen Pretorius for her insight and time she was always willing to give for me. Without her constant support, encouragement, and human understanding through the period of this study, this thesis would not have begun and would not have been completed. Joellen, I was extremely lucky to have you as my supervisor. Thank you always.



I am grateful for comments and criticisms on my thesis in various venues. The study has been presented and discussed at seminars at the University of the Western Cape, the Western Cape Regional Colloquium by the Southern African Association of Political Studies, and the Global South Doctoral Workshop by the Graduate Institute in Swiss. Professor Bocco, Professor Maurer, Professor Biersteker and colleagues participated in those seminars made useful and appreciated comments. I would like to express my special gratitude to Dr. Shyam Singh for giving me valuable tips about efficient writing which he has earned from his experience. Thanks are also due to Professors in Summer Institute, Professor Teresa and Professor Rick at New School in New York and Professor Stephen Gelb at University of Johannesburg for their passion and encouragement. They helped me see economic development issues from a new perspective.

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Contents

Key words	i
Abstract	ii
Declaration	v
Acknowledgements	vi
Contents	viii
Figures and Table	xii
Acronyms and abbreviations	xiii
On referencing and citation	xv
Chapter 1 Introduction	1
1.1 Problem Statement	1
1.1.1 Different paths of aid dependence	1
1.1.2 Foreign policy reversals in Korea and Ghana	10
1.2 Conceptual contribution	13
1.3 Methodology	22
1.3.1 An organising framework: Path dependence	28
1.3.2 Path dependence: Origin and perspectives	33
1.4 Terms in the thesis	35
1.4.1 Aid dependence	35
1.4.2 Elite	38
1.4.3 Perceptions, views and perspectives	39
1.4.4 Foreign policy	41
1.5 Structure of the thesis	43
1.6 Conclusion	45
Chapter 2 Aid-directed Foreign Policy	46
2.1 Brief history of debates on foreign aid and development	47
2.2 Donors' foreign aid policy	51

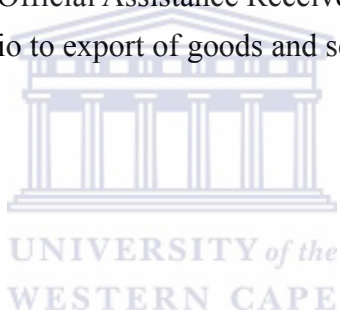
2.2.1 Self-interest: Aid as a means to national security	51
2.2.2 Self-interest: Aid as a tool for economic benefits	53
2.2.3 Altruism: Moral obligation	55
2.2.4 Hybrid model	56
2.3 Recipients' Foreign Aid Policy	57
2.3.1 A brief literature review on recipients' foreign policy	58
2.3.2 Submission: The compliance model	64
2.3.3 Consensus: Voluntary agreement between elites	68
2.4 Mercantilist aid-directed foreign policy.....	71
2.4.1 Classical mercantilism	75
2.4.2 Industrial mercantilism	76
2.4.3 Neo-mercantilism.....	77
2.5 Conclusion	79
Chapter 3 Elites in aid-recipient states.....	81
3.1 A brief review of the classics in elite studies.....	81
3.2 Why Elites?.....	86
3.2.1 Elites in foreign policy.....	86
3.2.2 Elite, aid dependence and development.....	92
3.3 Ideas that influenced the elite in Korea in the 1960s	101
3.3.1 Korean nationalism	101
3.3.2 Japanese technonationalism	104
3.3.3 Modernisation theory and Rostow	107
3.4 Ideas that influenced the elite in Ghana in the 1980s	111
3.4.1 Ghanaian Nationalism.....	112
3.4.2 Non-alignment	117
3.4.3 Dependency theory	120
3.5 Conclusion	124

Chapter 4 Korea, industrial mercantilism	126
4.1 Korea before Park: A brief history	127
4.2 Initial conditions	130
4.2.1 Alternatives: international consortium and domestic financial capital	130
4.2.2 The Cold War, the US and Japan	131
4.2.3 Local demand for strong leadership.....	138
4.2.4 The elite in Korea.....	143
(a) Park Chung-hee.....	145
(b) Military elite.....	147
(c) New elite	148
4.3 Path-dependent aid independence.....	152
4.3.1 The breakthrough: From reparation to economic cooperation.....	154
4.3.2 Reinforcement: Money for building a steel mill.....	159
4.3.3 Expansion: Institutionalising industrial mercantilism	165
4.4 The Political Economy of Industrial mercantilism	170
4.4.1 Industrialising Elite.....	170
4.4.2 Industrial mercantilism	178
(a) Breaking the declining terms of trade syndrome	180
(b) Externalities from coordinated investment	181
(c) A means to modernisation.....	182
(d) Building state capacity	183
4.4.3 The contradictions of industrial mercantilism	183
4.5 Conclusion	187
 Chapter 5 Ghana, indebted mercantilism.....	 189
5.1 Ghana before Rawlings: A brief history.....	190
5.2 Initial Conditions	193
5.2.1 Declining popularity	194
5.2.2 Alternatives: The Eastern bloc	196
5.2.3 The elite in Ghana	199

(a) Jerry John Rawlings	203
(b) The PNDC and initial leftist elites	205
(c) The new set of elites: technocrats and securocrats	208
5.3 Path-dependent Aid Dependence	211
5.3.1 The Critical juncture: abdicating economic autonomy for financial aid	212
5.3.2 Expansion: Abdicating people’s autonomy	220
5.3.3 Reinforcement: Giving up political autonomy	229
5.4 The Political Economy of Indebted mercantilism	235
5.4.1 The debt elite.....	235
5.4.2 Indebted mercantilism.....	239
(a) National security	240
(b) National wealth	241
(c) Growing aid dependence.....	245
5.5 Conclusion	248
Chapter 6 Conclusion.....	251
6.1 Summary of the argument and main findings.....	251
6.2 Contribution and future research agenda	269
6.3 Conclusion	270
References.....	271
Books, journals, periodicals, and web sites	271
Interviews.....	313
Government documents	313

Figures and Table

Figure 1-1. Changes in Gross National Income per Capita in Korea and Ghana	3
Figure 1-2. Net ODA received by capita	4
Figure 1-3. Total ODA and Official Assistance Received	24
Figure 1-4. Aid dependence	38
Table 4-1. Growth rate by industry in Korea	179
Figure 4-1. Aid dependence Korea	184
Figure 4-2. Korea's export by structure in 2012	186
Figure 5-1. A coup chronology in Ghana.....	202
Figure 5-2. Structure of the DCs.....	226
Figure 5-3. Manufacturing ratio to GDP.....	243
Figure 5-4. Total ODA and Official Assistance Received, Ghana.....	246
Figure 5-5. Debt service ratio to export of goods and services (%)	247



Acronyms and abbreviations

AFRC: Armed Forces Revolutionary Council
 CIA: Central Intelligence Agency
 CPP: Convention People's Party
 DAC: Development Assistance Committee
 DC: Defence Committee
 ERP: Economic Recovery Programme
 EPB: Economic Planning Board
 EU: European Union
 FDI: Foreign Direct Investment
 FRB: Force Reserve Battalion
 FYEP: Five Year Economic Development Plan
 GATT: General Agreement on Tariffs and Trade
 GDP: Gross Domestic Product
 GNI: Gross National Income
 HCI: Heavy Chemical Industry
 HIPC: Highly Indebted Poor Countries
 IMF: International Monetary Fund
 JFM: June Fourth Movement
 KISA: Korea International Steel Association
 KIST: Korea Institute of Science and Technology
 LDCs: Least Developed Countries
 MCI: Ministry of Commerce and Industry
 MNEs: Multi-National Enterprises
 NAM: Non-Aligned Movement
 NLC: National Liberation Council
 NDC: National Democratic Congress
 NDM: New Democratic Movement
 NDPC: National Development Planning Commission
 NRC: National Redemption Council



OAU: Organisation of African Unity

ODA: Official Development Assistance

OECD: Organisation for Economic Co-operation and Development

PDCs: People's Defence Committees

PNP: People's National Party

PNDC: Provisional National Defence Council

PP: Progress Party

PRSP: Poverty Reduction Strategy Paper

SAP: Structural Adjustment Programme

UN: United Nations

US: United States of America

WDCs: Workers Defence Committees

WTO: World Trade Organisation



On referencing and citation

The referencing in this thesis abides by the Harvard style, but when an author with a Korean name was cited in the text, the full name was used (i.e. surname, given name, year of publication) since many Korean authors share common surnames and it may be confusing to some readers. In addition, when name of Korean figures are referred in the text, surname comes before given name. For instance, when a name ‘Park Chung-hee’ was referred in the text, Park is his surname and Chung-hee is his given name. The same principle is applied to referring to Korean authors in the text.

Source titles from languages other than English were translated first, but the original title was also added. In case where the author of a non-English publications did not provide an English-translated title, the author of this thesis translated the title as close to the original title as possible.



Chapter 1 Introduction

1.1 Problem Statement

1.1.1 Different paths of aid dependence

This thesis examines two diverse paths of aid dependence. One path begins with elite perceptions that see foreign aid as a means to an end and leads to aid independence. The other path starts with elite perceptions that see foreign aid as an end in itself and leads to perpetual aid dependence. The thesis finds the former path in South Korea (or Korea hereafter) and the latter in Ghana. In the early 1960s Korea was “suffering from all the ills associated with a *typical* developing nation [emphasis added]” (Sakong, 2004, p.7). In contrast, in the 1960s, the extent of Ghana’s development was “*untypical* of the stereotype of an under-developed economy [emphasis added]” (Omari, 1970, p.100). When Ghana became independent from Britain in 1957, it was economically the most advanced nation in Africa apart from South Africa and had the most potential in Sub-Saharan Africa (Werlin, 1994). Ghana had bigger foreign reserves than India, and did not have a pressing need to seek foreign aid at the time of independence (Thompson, 1969, p.xvii). Its social and economic infrastructure, such as telecommunications, roads, health system, and education was far more developed than those of Korea where two-thirds of the roads were destroyed during the Korean War. Korea can be said to have had neither more wealth nor more potential than Ghana in the early 1960s.

Fifty years later, in 2010, however, Korea joined the Development Assistance Committee (DAC) in the Organisation for Economic Co-operation and Development (OECD) which is also referred

to as “the club of wealthy countries.”¹ The first DAC peer review report on Korea “expressed genuine admiration for Korea’s success in transforming itself from an aid recipient (as recently as 1995) to an important aid donor in such a short space of time” (OECD, 2012, p. 11). In contrast, Ghana became a member of the Highly Indebted Poor Countries (HIPCs)² and Ghana’s aid dependence rate to gross domestic capital is still above 25 per cent. As the World Bank avers, the two countries followed two disparate paths of economic growth:

In 1965, for example, incomes and exports per capita were higher in Ghana than in Korea. But projections proved to be far off the mark. Korea’s exports per capita overtook Ghana’s in 1972, and its income level surpassed Ghana’s four years later. Between 1965 and 1995 Korea’s exports increased by 400 times in current dollars. Meanwhile, Ghana’s increased only by 4 times, and real earnings per capita fell to a fraction of their earlier value (World Bank, 2000b, p. 20).

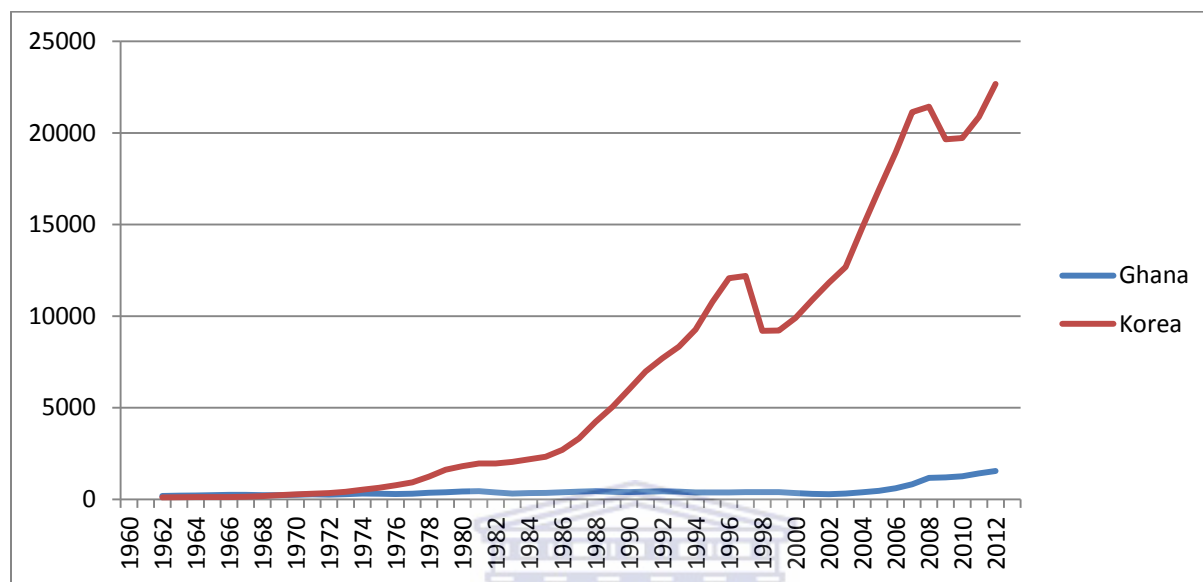
In 1962, Korea’s gross national income per capita was \$110 and Ghana’s was \$190 (\$ always refers to US dollar). However, as Figure 1-1 shows, a half century later, in 2012, Korea’s gross national income (GNI) per capita has multiplied by more than two hundred times to \$22 670, in contrast to Ghana’s, which has multiplied by only eight times since 1962 to \$1 550 (World Bank, 2013).

¹ The DAC has 29 members: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, European Union, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom, and United States (OECD, 2014).

² In 2013, 39 countries are identified as HIPCs. They are Afghanistan, Benin, Plurinational State of Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Côte d’Ivoire, Guinea, Republic of Congo, Democratic Republic of Congo, Eritrea, Ethiopia, The Gambia, Ghana, Guinea-Bissau, Guyana, Haiti, Honduras, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Níger, Rwanda, São Tomé Príncipe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, and Zambia (World Bank, 2012b)

Figure 1-1. Changes in Gross National Income per Capita in Korea and Ghana

Unit: \$



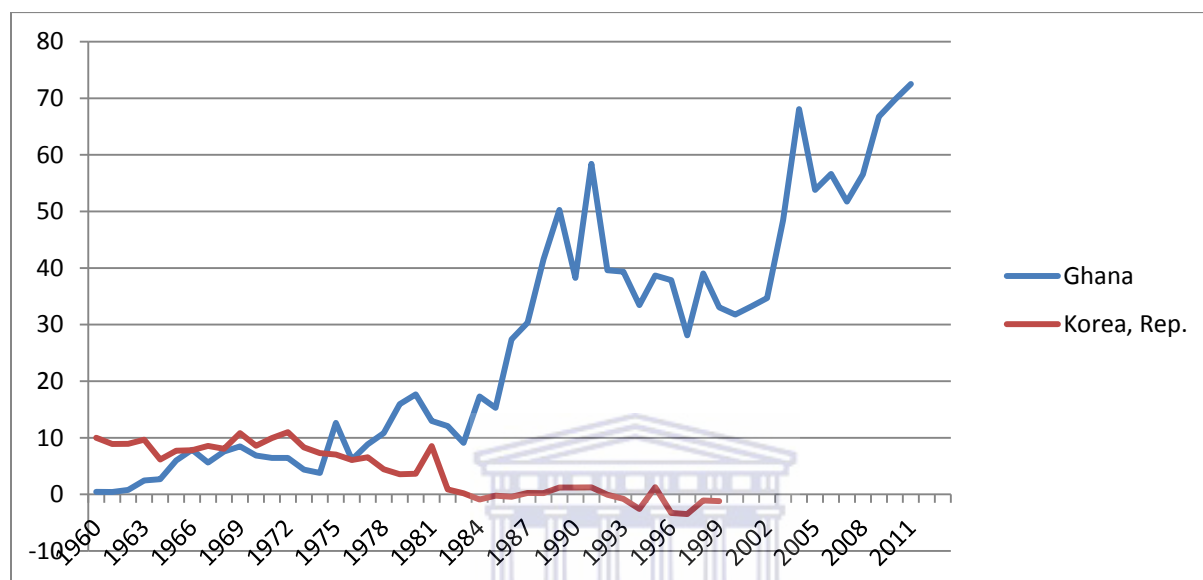
Source: The World Bank, World Indicators database (2013)

However, looking at the figure of foreign aid received, one can find almost an exactly reversed result. Figure 1-2 shows the net foreign aid received by capita in Korea and Ghana across time and the trajectories of the graphs are reversed from those in Figure 1-1, which shows the economic growth of the two countries. Ghana's total external debt³ in 2010 was \$ 8 368 billion which was 27.2 per cent of GNI of Ghana (World Bank, 2012a, p. 362). Ghana is receiving net official development assistance (ODA) of \$1.582 billion in 2010 which means per capita Ghanaians received \$66 in the year and 5.5 per cent of GNI and 24.7 per cent of gross capital formation of Ghana depended on foreign aid (World Bank, 2012a, p. 374).

³ According to the World Bank definition, total external debt is "debt owed to nonresident creditors and repayable in foreign currencies, goods, or services by public and private entities in the country. It is the sum of long-term external debt, short-term debt, and use of IMF credit. Debt repayable in domestic currency is excluded." (World Bank, 2012a, p. 365)

Figure 1-2. Net ODA received by capita

Unit: \$



Source: The World Bank, World Indicators database (2013)

The diverse economic growth of the two countries intrigued scholars and commentators. To name a few representative schools, an economic liberalist perspective in the 1980s finds the free market as being a causal factor for positive economic performance. The World Bank was at the vanguard of this perspective and produced a number of famous publications such as *Accelerated Development in Sub-Saharan Africa* (1981) which is better-known as the *Berg Report*, and *Trends in Developing Economies* (1990). However, this stand point was soon refuted by a new wave of approaches that highlight the role of government intervention in economic growth (Amsden, 1989; Wade, 1990; Kim & Leipsiger, 1993). The emerging economies of East Asia, the so-called Newly Industrialised Countries (NICs) or Four Tigers (Korea, Taiwan, Singapore and Hong Kong), served as supporting cases for this state-centric thought.

Some writers found that ‘soft’ factors such as culture account for different speeds of economic performance in the third world. Confucianism, or the lack of Protestantism in Asia, which was blamed as the foundational factor of economic backwardness by Max Weber (1930) began to get attention as a positive contributing factor for the economic growth of the East Asian tigers along with the unexpected economic growth of the region more broadly. Initial works focused on frugality, diligence, educational zeal, and discipline of Confucianism as contributing factors (Tu, 1988; Dai, 1989). The simplistic assumption of the influence of Confucianism on economic growth was criticised in later works such as Kwon O Yul (2011) and Power (2010); those contemporary thinkers on culture and economic development tend to focus on an operational intermediary between these variables, such as culture’s role in transaction cost, social capital, or investment in practice. Not all thinkers, however, agree that Confucianism was even a contributing factor. Kim Hyeong-A (2004, p.4), for instance, argues that the contributing cultural factor for Korea’s economic development was post-Confucianism rather than Confucianism.

Rather than just examining the case of a single country some thinkers have focused on comparative studies of Korea and Ghana. Among those, Moss (2003) expresses the view that policies rendered the difference. Werlin (1994), on the other hand, asserts that the commitment of leaders to economic development was the dividing factor between Korea and Ghana. However, it would be fatuous and risky to identify just one specific contributing factor to economic growth or stagnation. Single-factor explanations are too simplistic to account for the complexity of economic growth as economic development depends on a multiplicity of factors including not just industrial policy but also international political economy, local culture, history,

and geographical conditions, to name just a few. There are many intertwined variables involved besides seemingly direct causes of economic success or failure. Stein (1995, pp. 32-33) also elaborates why one should be careful in comparative interpreting, namely usually there exists in the respective cases: (1) a unique international environment that surrounds a specific nation at a specific time; (2) unique historical economic circumstances; (3) cultural or social values that reduce the transaction costs; and (4) a structure of social or political classes relating to promoting a set of policies.

Looking at the cases of Korea and Ghana within the framework of these four factors identified by Stein, the following can be observed. First, the international market was friendly towards Korean export-driven economic growth. However, Ghana has suffered from relatively less favourable terms of trade than Korea. Secondly, relating to the historical economic factors, massive aid, which Korea received after the end of the Korean War, did not happen in Ghana. In fact, between 1956 and 1962, 80 per cent of gross domestic investment in Korea was foreign aid. Thirdly, the Confucianism in Korea which emphasises frugality, diligence, education and discipline reduced the transaction cost in Korea's economic development. But in Ghana, it was not easy to find the societal attributing factors to its economy as Confucianism did in Korea. Finally, in terms of the peculiarity of political alignment, authoritarian regimes were possible in Korea but regimes in Ghana were less autonomous; Korea's strong regimes were possible partially because the land reform shrunk the basis of rural elites, but Ghana did not go through a similar process.

Understanding the uniqueness of the two countries, this thesis does not seek any single or even

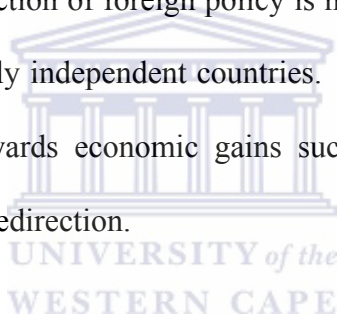
any major factor that made the difference in the paths of economic growth in Korea and Ghana. There are multiple direct and indirect factors and it is impossible to pick one under the assumption of *ceteris paribus* in a study of economic growth of two different countries. In addition, the thesis does not have an intention to find ‘lessons’ from Korea’s economic development and aid independence for Ghana either. As mentioned above, every country has unique historical, international, demographic and geographic conditions and therefore it is not feasible to share lessons between the two countries.⁴

Instead this thesis focuses one of the most critical factors that affect the effect of foreign aid. Excluding the issue of quantity of aid, aid can affect the economy of recipient countries through three different routes: government procurement, exchange rate, and expenditure (Choi, 2005). The first two have been studied relatively frequently especially by economists, partially because these are easier to measure using a numeric index. However, despite its importance, the third route of aid affecting the economy has been less discussed since the causal link is relatively difficult to measure. This thesis examines the third route: expenditure. To find the route, instead of tracing complex numeric data on expenditure, this thesis focuses on the intention of expenditure. Any decision on expenditure depends on what the elite perceive as the purpose of foreign aid. Thus, the thesis examines elite perspectives of the purpose of foreign aid underlying

⁴ Nevertheless, there have been numerous attempts to apply lessons from economically successful cases to less successful ones, most of which, unfortunately, have been proven invalid. Many such attempts have been made and are still being made between successful Asian cases and less successful Latin American and African ones. Debates on developmental states are one of those. However, as Wade (2009), one of the pioneers of the study of emerging East Asian economies, rightfully points out, it is impossible to learn how to pick winners in an overarching developmental state from East Asia when there is no ground for forming developmental states and no winners to pick.

aid-directed foreign policy.

Most of the colonialized countries in Africa and Asia became independent after World War II and at first, ideology or political concerns drove the foreign policy of the newly independent countries. At some point, however, the new states came to realize that political independence did not necessarily mean economic independence and subsequently began to redefine their foreign relations with a fresh economic perspective: this was the realisation that they could and should get more economic benefits from abroad in order to survive politically (Rothstein, 1976). Nevertheless, a far-reaching redirection of foreign policy is not an easy task for any government and is even more difficult for newly independent countries. Thus when a government steers its foreign policy from ideology towards economic gains such as foreign aid, there should be significant grounds to explain the redirection.



In fact, foreign policy always changes to correspond to any changes in the goals of a state; after all, the term “foreign policy” means “a goal-oriented or problem-oriented program by authoritative policy makers (or their representatives) directed toward entities outside the policy maker’s political jurisdiction” (Hermann, 1990, p.5). Far-reaching or fundamental redirections in foreign policy most often take place upon the replacement of an old regime by a new one with a different political philosophy. Mostly, foreign policy can be expected to be more or less stable within a regime (Moon, 1985, p. 312). However, foreign policy can change within an existing regime and this change is different from a foreign policy redirection that coincides with a regime

change.⁵ In executing such a change within a regime, a government risks its political life or legitimacy. At the domestic level, a regime's positions on political conservativeness, balance-of-payments and trade openness are central issues which identify the regime. It is the same for the competing political groups. In other words, those central issues differentiate and legitimize the regime, and therefore cannot easily be altered. Foreign policy is closely linked to critical domestic policy such as political alliances or free trade agreements with strategic international partners. Because of this, foreign policy is not expected to be fundamentally redirected until the regime is replaced by a new government with different political and economic perceptions. Also, at the international level, drastic changes in foreign policy within a regime reshape the world alliance map, which can range from adjusted economic cooperation to wars between the nations affected (Hermann, 1990). Therefore, when a country changes its foreign policy from ideology to economic gains of foreign aid, the benefits from foreign aid should be big enough to offset the domestic and international risks which might result from the foreign policy change. In addition, the reasons for the change are frequently discussed and openly expressed by the political elites and also by the public, and this disclosure helps researchers to determine the underlying intention behind the foreign policy change.

For those who took power in an unconstitutional way, any change to foreign policy within a regime is more challenging than for those who were elected through legitimate procedures. Coup leaders legitimize themselves by denying the previous regime and differentiating the new

⁵ According to Hermann (1990), there are four levels of changes depending on the significance of the change: first, adjustment changes that only affect the level of quantity of existing foreign policy; second, programme changes that include the means of foreign policy, for example, from diplomatic negotiation to economic sanction; third, problem/goal changes which refer to a change in the ends of foreign policy; and fourth, international orientation changes which include a shift in alignments.

regime from the toppled one. Therefore, far-reaching policy changes during the tenure of the new regime dilute those differences and cast doubt on the legitimacy of the principle or stance of the coup regime. When a coup regime takes over a pro-West administration, blaming its foreign policy direction, a new military regime naturally seeks to change foreign policy towards anti-West direction in an attempt to legitimise the coup. In this sense, the regimes of Korea's Park Chung-hee and Ghana's Jerry John Rawlings are two interesting and similar but contrasting cases to examine. It examines the *prima facie* similar but essentially different cases of foreign policy redirection toward foreign aid: case one by Park in Korea and case two by Rawlings in Ghana.



1.1.2 Foreign policy reversals in Korea and Ghana

Korea became independent from Japan in 1945 and along with independence the diplomatic relationship between the two countries was severed. When Park took power through a coup in 1961, the population in Korea were still suffering from the trauma of Japanese oppression, and so, when Park's regime announced normalising the severed relations between Korea and Japan in 1963, the government faced extreme resistance that threatened not only its legitimacy but also the existence of the regime.

Diplomatic normalisation between Korea and Japan has been a long process since the Treaty of San Francisco which was signed in 1951.⁶ The negotiations for normalising the broken relations

⁶ According to the Treaty, Japan was asked to "enter into negotiations for the conclusion with each of the Allied Powers of treaties or agreements to place their trading, maritime and other commercial relations on a stable and

had been in progress since the first Republic of Korea, and after fourteen long years of negotiations since the Treaty, the two governments finally exchanged instruments of ratification of the Japan-Korea Treaty and Agreements on December 18, 1965. Korea received a total aid package valued at \$800 million in return for the restoration of those relations. At the time of ratification, the diplomatic normalisation was seen as an outcome of American manoeuvres, and this perception led to much anti-Americanism in Korea (Mobius, 1966, p.241). In addition, for a long time, political scientists have focused on the role of the United States of America (US) in their study of the normalisation. However, it is insufficient to explain the diplomatic normalisation between Korea and Japan by having a skewed focus on American pressure. Such pressure was put in place for fourteen years during the first and the second administration in Korea. Nonetheless, it was the third administration of Park which aggressively embarked on the normalisation, in contrast to the previous two regimes. Along with the external factors, internal elements should be examined to explain why the normalisation took place at that particular time. Only recently, a few scholars began to examine internal factors to explain the diplomatic normalisation. Even though there were a few attempts to investigate domestic roles, most of them focused on President Park himself and his pro-Japan inclinations or his experience in Japanese military schools. Recently, however, a group of scholars, mostly in the field of History, began to examine elements other than his personal character. Yoo Byong Yong (1991) suggests that normalisation was the fruit of mutual benefits for Korea and the US and therefore one needs to look at both internal and external surroundings to understand fully the normalisation.

friendly basis” (Article 12). Korea was not a member of the Allied Powers but was still subject to the Article 12 through the terms of Article 21 stipulating the inclusion of “Korea to the benefits of Articles 2, 4, 9 and 12 of the present Treaty.”

Turning to Ghana, Rawlings's regime also went through a far-ranging and unpopular foreign policy redirection similar to that of Park's. Rawlings took power by military coup in 1981 overthrowing the civilian Limann administration whose foreign policy had been skewed toward the West. The nationalist and socialist Rawlings regime redirected Ghana's foreign policy toward the Communist East as soon as Rawlings took office and the rhetorical war against neo-imperialist Western countries was raised. America's Reagan administration was regarded as resurgent "old demons" (West Africa, 1982, p. 967). In contrast to Western countries that used a policy of "wait-and-see how well Ghana was doing", countries in the Eastern bloc emerged as new friends of Ghana. The new Foreign Minister Obed Asamoah argued that "in the past, we have tended to lean more to the Western countries and to ignore the possibilities of fruitful cooperation with the countries of the East. Now we are going to explore those possibilities" (West Africa, 1982, p. 1754). He began to build relations with socialist countries such as Cuba, Libya, and Eastern Europe. Rawlings visited Libya, Nicaragua and Cuba and deported US diplomats from Ghana to which the US replied with a similar action and with an aid blockade on Ghana. However, in 1983, Rawlings made a drastic foreign policy change away from the Eastern bloc to the West. Despite the original political positions, most analysts agreed, "autocrat Jerry Rawlings bet heavily on ties to the West, positioning his government as a model economic reformer in the 1980s" (Levitsky & Way, 2010, p. 300). Why did he and Ghana's political elite make such a drastic change which some predicted as "politically suicidal" (Jeffries, 1990, p. 159)?

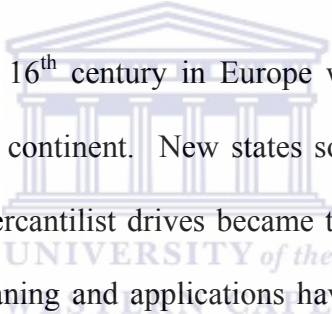
The foreign policy changes under Park in 1963 in Korea and under Rawlings in 1983 in Ghana divide the history of foreign policy in those two respective countries. In Korea, before Park, foreign policy was driven by political ideology, and since the diplomatic normalisation with

Japan, Korea's foreign policy has been driven by economic gains rather than political ideology. The same applied in Ghana. Before Rawlings's foreign policy shift in 1983, foreign economic policy was the "second fiddle to traditional foreign policy concerns" (Boafo-Arthur, 1999, p.73). However, in both countries, foreign economic policy emerged as the ultimate goal of foreign policy since the shifts. The foreign policy changes in 1963 in Korea and 1983 in Ghana were primarily based on economic calculations risking ideological or political legitimacy under military regimes. What is more meaningful in the foreign policy changes in Korea and Ghana is that the changes became the critical junctures for following paths of economic diplomacy and economic growth. With foreign policy focusing on economy or foreign aid, Korea indulged in repeated aid-seeking and so did Ghana. Given the seemingly similar aid-oriented redirection of foreign policy by Korea and Ghana, and following the same path of aid-seeking, a question must be asked: how did those two countries, sharing the same aid-seeking foreign policy, fall onto different paths of economic growth? In elucidating the origins of different economic growth, understanding how a critical juncture shapes the path is of importance. The juncture is a "double-edge sword"; on the one hand it can break the cycle of lending and servicing, but on the other hand, it can also create or intensify the vicious cycle (Acemoglu & Robinson, 2012). In the critical juncture, the initial small differences matter. This thesis finds the difference in elite perceptions of mercantilism.

1.2 Conceptual contribution

This thesis examines elite perspectives of the purpose of foreign aid and the consequent

economic development paths that Korea and Ghana followed. In order to identify those elite perceptions, the thesis focuses on aid-oriented foreign policy changes and aid diplomacy since, as Clapham (1996, p. 45) notes, “foreign policy of any state reflects the way in which its government defines its own mission.” As mentioned above, the foreign policy changes of the two regimes are particularly noteworthy since they were the first redirections from an idealistic foreign policy to a pragmatic one since their independence in 1945 in Korea and in 1957 in Ghana. In that sense, the foreign policy changes of the two countries can be understood to have been driven by mercantilism or economic nationalism.



Mercantilism first emerged in the 16th century in Europe when feudalism was demising and nations began to be formed in the continent. New states sought wealth in order to protect or expand their territory, and such mercantilist drives became the dominant governing philosophy of the time. Even though the meaning and applications have evolved over time, according to Viner’s (1958, p.286) definition of mercantilism, which is most widely used, mercantilism has the following propositions: (1) wealth is essential to power; (2) power is essential to wealth; (3) both wealth and power are the ultimate ends of national policy; and (4) there is long-term harmony between these ends.

Mercantilism has been commonly applied to understand a state’s behaviour and the thesis also applies mercantilism in understanding the abovementioned foreign policy change in Korea and Ghana. However, in the thesis, mercantilism is not used to understand foreign policy behaviour of a state only. Mercantilism, in the thesis, is a framework to analyse the ruling elite as well. As Foucault (1991b, p. 97) insightfully notes, mercantilism is “rationalisation of the exercise of

power as a practice of government.” In mercantilist philosophy and policy, a state claims to be and plays a role of a “savior” of people, but in fact, mercantilism is just “a tactic of government” or, in the thesis, a tactic of the governing elites (Foucault, 1991b, p. 97). A mercantilist drive in Europe between the 16th and 19th century brought the wealth and power of the country. Nevertheless it was by no means bigger than the wealth and power that the ruler achieved using the mercantilist tactic (Foucault, 1991b, p. 98). The ultimate winner or beneficiary of mercantilist policy is not a state; it is the mercantilist elite. Applying Foucault’s (1991a, p. 79) viewpoint that “*practices* don’t exist without a certain regime of rationality [emphasis original]” to the cases of the foreign policy change in Korea and Ghana, the ruling elite in Korea and Ghana manipulated the ‘rationality’ of mercantilism to carry out the ‘practices’ of aid-oriented foreign policy changes in search of the wealth and power of the elite on behalf of the wealth and power of a state. In sum, in the thesis, mercantilism means a foreign policy of a state practiced in search of the wealth and power of a nation, but, at the same time, it is the elite’s tactic to gain the wealth and power for the ruling class. The thesis examines the duality of mercantilism in Korea and Ghana and studies the impact of it on aid dependence.

Looking through the lens of the duality of mercantilism, seemingly the same mercantilist foreign policy changes of Korea and Ghana are, in fact, fundamentally diverse. At the level of state, they can be referred to as the same mercantilist foreign policy, but in terms of elites one can find a critical diversity. Elites in Korea found the road of their survival in restructuring the national economy from agriculture to manufacturing, and foreign aid was sought after as a means of industrialisation. Thus, aid-seeking was driven by *industrial mercantilism*. Elites in Ghana, on the other hand, saw foreign aid as a means to their survival and therefore financial aid itself

became the ultimate ends of aid-seeking foreign policy. Such type of mercantilism resulted in state behaviour of searching foreign aid in order to pay back outstanding sovereign debt so that the state can maintain a proper fiscal status for potential foreign aid or international borrowing. This thesis names this type of Ghanaian foreign policy and elite perspectives as *indebted mercantilism*: the philosophy or the policies of indebted developing countries directing their foreign policy towards foreign aid in order to pay back previous debts and, ultimately, to maintain their balance-of-payment sheet in better shape for securing more future aid, i.e. more indebtedness.

There are a few routes how indebted mercantilism causes a growing level of indebtedness. First, foreign aid in itself causes indebtedness. Foreign aid is not free of interests. At its broadest, foreign aid includes all resources transferred to recipient countries from donors (Riddell, 2007, p. 17). In International Relations, foreign aid refers to an exchange between states⁷; Krueger, Michalopoulos and Ruttan (1989, p. 1) define foreign aid as “an instrument used by a government to strengthen the economy of another country.” From a more pessimistic view, it is only the “compulsory transfer of taxpayers’ money to foreign governments” which is likely to obstruct the economic progress of recipients (Bauer, 1971, p. 95). However, a technical definition of foreign aid, which most contemporary scholars have been using, is more specific than political definitions of foreign aid. According to the OECD-DAC, foreign aid means official development aid (ODA). ODA includes loans and grants and it ODA has to meet three

⁷ Comparing to the definition of foreign aid in economics and developmental studies, in political studies and international relations, it is a more value-loaded concept. However, the definitions of foreign aid are, in most cases, donor oriented.

criteria. First, assistance should be “provided by official agencies, including states and local governments, or by their executive agencies”; second, the aid transaction should be “administered with the promotion of the economic development and welfare of developing countries as its main objective”; and third, it should be “concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)” (OECD, 2008, p. 1). Based on the latter criterion, foreign aid becomes debt; ODA or foreign aid is concessional, which means it is transferred “on terms substantially more generous than market loans” (IMF, 2003, p. 249). The concessionality, i.e., the more generous terms, can be achieved through two ways, “either through interest rates below those available on the market or by grace periods, or a combination of these” (IMF, 2003, p. 250). Thus, even though foreign aid is still cheaper than borrowing from a commercial sector, it is by no means given for free, which means recipient countries should pay it back in future with added interests, no matter how much the interests is. Even when foreign aid is transferred in the form of grants, either economic or political returns to donors are anticipated, which, as shown in many cases including Ghana, could do more harm to the autonomy of the recipient country than mere paying back with added interest. In short, foreign aid is debt.

Secondly, foreign aid causes indebtedness through moral hazard of elites. In fact, foreign aid is more dangerous than loans inasmuch as elites in recipient countries find foreign aid with a longer grace period more attractive than commercial loans with a shorter or no grace period. The longer grace period of foreign aid exempts elites from concerns of paying it back. They can just focus on borrowing or receiving as much foreign aid with a long grace period as possible without planning how to pay it back; probably they might not be in office when they have to pay back the

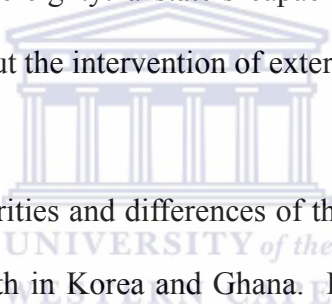
aid. Servicing the debt is a job for next one in office or the next generation of a state.

A history of foreign capital in Ghana shows how foreign aid increased indebtedness over time. Looking at general characteristics of foreign aid given to Ghana over time, Ghana's external debt was \$577 million and it mainly consisted of loans in 1982. However, in the mid-1990s, the type of monetary support to Ghana began to shift from loans to foreign aid, which was concessional in character, and in 2000, external debt of Ghana reached \$6 billion (Bank of Ghana, 2009, p. 9). During this period, ODA was the equivalent of 9.5 per cent of gross domestic product (GDP) in 1990 and rose to 10.4 per cent in 2005 (Geddes, et al., 2009, p. 3). Foreign aid results in growing indebtedness. Indebted mercantilism is unhealthy to any economy because of growing indebtedness resulting from repetitive borrowing and servicing. However, the fundamental damage does not lie in the exacerbating fiscal repetitions. Indebted mercantilism causes aid-supremacy. Conditionality⁸ tagged to aid does not occupy the top priority in the mind-set of the indebted mercantilist elite. As a result, indebted mercantilist elites choose foreign aid over anything else and this includes state autonomy, which is the main concern of the thesis regarding indebted mercantilism in Ghana.

In order to set the scene for the thesis, it is important to understand what 'autonomy' means in the thesis. Autonomy in the thesis refers to state autonomy as a principle of Westphalian sovereignty which means "to refrain from intervening in the internal affairs of other states" (Krasner, 2004, p. 88 & 108). Conventional sovereignty has three elements: international legal

⁸ Discussing aid conditionality, Stokke (1995, p. 2) explains conditionality as "not an aim in itself but an instrument by which other objectives are pursued" and has "the use of pressure" as the key defining element (p.12).

sovereignty, Westphalian sovereignty, and domestic sovereignty. International legal sovereignty gives a state international recognition of a juridically independent territorial entity in which a state can voluntarily enter into an international agreement with other state entities. On the other hand, domestic sovereignty means the extent to which a state is able to keep order within a state's boundaries. Lastly, Westphalian sovereignty, as a principle of autonomy, includes a state's function to formulate and implement domestic policies without external intervention. Even though some scholars use all the three elements of sovereignty to measure the level of autonomy (Stephan, 1978; Trimberger, 1978; Skocpol, 1985), the thesis limits the application of autonomy only to Westphalian sovereignty: a state's capacity or willingness to formulate and implement domestic policies without the intervention of external entities.



This thesis will examine the similarities and differences of these two cases of aid-driven foreign policy change and economic growth in Korea and Ghana. By doing so, it aims to make some distinctive contributions to the existing literature. First, even though mercantilism is a prominent theoretical framework in International Political Economy, there has been no comprehensive study, as far as this author is aware, which applies mercantilism to explain the aid-seeking behaviour of recipient countries. This thesis attempts to fill this gap. Mercantilism is a powerful and useful tool that can account for the behaviour of the state and perceptions of the elite in most countries, both strong and weak. However, the dominant body of literature on mercantilism focuses only on Western countries. There have been almost no attempts to apply mercantilism to Asian countries before the rise of Japan and the so-called Asian Tigers. Johnson (1982), Evans (1995), and Leftwich (1995) are representative pioneers who link industrial mercantilism to examples of East Asian countries. These writers developed a new concept of the “developmental

state” through the special application of industrial mercantilism to East Asian countries. However, in the case of Latin American and African countries, attempts to apply mercantilism have been almost non-existent. Most aid-recipient countries became independent from imperial powers after World War II, and almost all of the newly independent states were poor. For most new states, *development* and *independence* were “two over-riding priorities” (Rapley, 2007, p. 20). Economic impoverishment and political instability were the most basic and the most crucial problems for most new states (Haynes, 2008). In the sense, *mercantilism* or *economic nationalism*, which has been mostly used to explain strong countries’ behaviour, can be a useful explanatory and theoretical framework that explains aid-seeking behaviour of the newly independent states.



Second, the thesis examines diverse perspectives behind the same mercantilist foreign policy. In studies of perceptions of elites, most researchers cite diverse beliefs and perceptions of the elite to explain contradictory political behaviour. In foreign policy studies, different perceptions have been used as an explanatory factor for different foreign policy outcomes. For instance, Crichlow (1998) exposes differences in the personal history of two Israeli Prime Ministers, Shimon Peres and Yitzhak Rabin, to account for different foreign policy dispositions in Israel. However, limited attempts have been made to examine different perceptions behind the seemingly similar foreign policy behaviour.

Thirdly, the thesis deals with economic foreign policy which has been rarely studied in relation to the elite and their motives. Even though human factors in foreign policies such as goals, motives, personalities, foibles and beliefs have been of interest to a group of scholars in

International Relations, almost all literature has studied foreign policy decision makers regarding foreign military policies (Rivera, 1968). For instance, Byman and Pollack (2001) contend that individual leaders played a critical role in International Relations and they refute system-oriented accounts as represented in for example *Man, the State and War* by Kenneth Waltz (1959). They point out that a desire for theoretical generalisation has been a major impediment to human-centred analysis in International Relations. However, these writers' focus on the role of leaders is also inclined to the foreign military policy as one can see in the five cases they offer to support their argument: Hitler; Chancellor Otto von Bismarck and Kaiser Wilhelm II; Napoleon Bonaparte; Saddam Hussein and Hafiz al-Asad; and, Ayatollah Ruhollah Khomeini in the war in Iran. On the contrary, the motives of the elite behind foreign economic policy have rarely received attention. Foreign economic policy has been regarded as a "sober" undertaking with less room for human engagement than foreign military policy which allows bigger latitude to political leaders' emotions, such as being greedy, vain, or ambitious.

Throughout such contributions, the thesis aims to fill an empirical gap in the literature of aid-recipients' foreign policy. However, even though this thesis aims to focus on the intention of elites in recipient countries, it cannot simply ignore the intention of aid donors. The donors' intentions in giving aid critically affect the responses of recipient elites. Therefore, the donors' intentions should be treated as one of the factors affecting the recipient elites' perspectives on foreign aid. Rather, the focus of the thesis goes to the recipients' viewpoint on foreign aid. The thesis studies how elites in aid-receiving countries see mercantilism and how it affects the path of economic growth.

1.3 Methodology

In order to examine how the elite perceptions of industrial mercantilism and indebted mercantilism affected the path of economic growth, the thesis examines the two cases of Korea and Ghana through a lens of comparative historical analysis with a theoretical framework of path dependence. Comparative historical analysis refers to a mode of investigation that meets the three criteria of, first, “a concern with causal analysis”; second, “an emphasis on process over time”; and third, “the use of systematic and contextualised comparison” (Mahoney & Rueschemeyer, 2003, p. 6). It was a leading mode of investigation when social science began to emerge as separate disciplines in the early 20th century (Mahoney & Rueschemeyer, 2003, p. 3). Even though there was a slight decline in its popularity as an investigating tool in social science in the mid-20th century, since the late 1970s, a number of critical works have been produced using comparative historical analysis in order to explain macro-level questions such as formation of states (Tilly, 1990), economic development (Evans, 1995; Wade, 1990), causes and consequences of national identities (Marx, 1998), and emergence of a democratic or authoritarian regimes (Collier & Collier, 1991). Those comparative historical analysts seek to explain such questions within the historical context and do not pursue universalising knowledge since they think that the historical details from past experiences offer more lessons than ahistorical universal knowledge does to the concerns of the present (Mahoney & Rueschemeyer, 2003, p. 9).

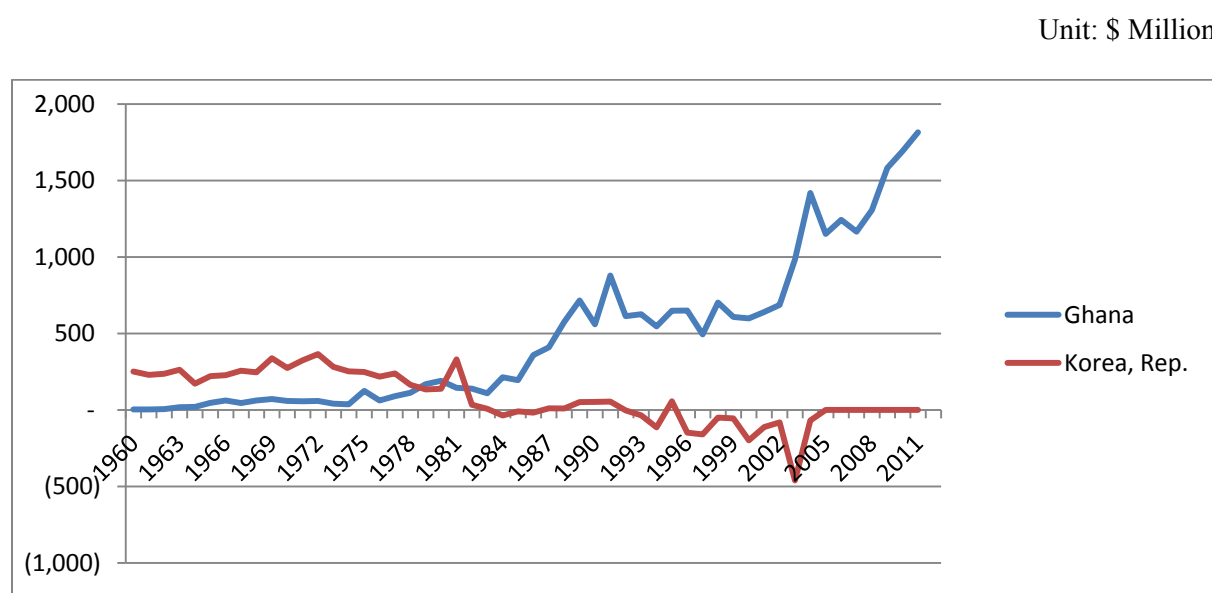
This thesis, adopting a comparative historical analysis, does not intend to identify the causes of all aid dependence in all regions and all areas. Instead, it explores the specific factors that shape

divergent elite perceptions of foreign aid in Korea in the 1960s and in Ghana in the 1980s. In order to establish the causal direction, the thesis conducts process tracing focusing on the development of aid diplomacy from the critical juncture of foreign policy change in 1963 in Korea and in 1983 in Ghana. Studying the foreign policy change in Korea and Ghana from a framework of comparative historical analysis has a few meaningful strengths. First, as mentioned above, they are the first foreign policy change from political idealism to pragmatism in each country. Second, the two countries make for a good contrast regarding the role of foreign aid. Ghana is a case country which started in a good economic shape but fell into aid-dependence *due to* foreign aid. The elite in Ghana had been “highly suspicious” towards foreign aid, thinking foreign aid was inimical to economic independence and indeed, it had received an insignificant amount of foreign aid prior to 1983 (Kim, Jiyoung, 2013, p. 12). It was since 1983 that Ghana turned into an active aid-seeker and became aid-dependent and highly indebted. In contrast, Korea received a huge amount of foreign aid after independence but made economic and political transition to economic and political independence *despite of* foreign aid. As Figure 1-3 shows, Korea received significantly more foreign aid than Ghana did in the 1960s and 1970s. Therefore, if foreign aid in itself becomes a primary cause of aid dependence, as some aid thinkers argue (Moyo, 2010), Korea, rather than Ghana, should be the country suffering in the trap of aid dependence. The two countries, in this vein, become good cases of comparative historical analysis with major similarities and critical divergences.

In addition, Ghana is an African country which has not suffered any recent large-scale political violence and thus, looking at Ghana, a researcher of aid effectiveness can control negative external effect relatively better than looking at other African nations (Geddes, et al., 2009).

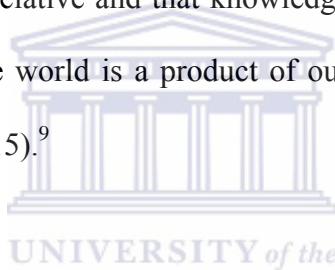
Since the Rawlings regime took power in 1981, there has been no successful military coup or destructively violent conflict in Ghana. In the thesis, selecting Korea as a case to examine aid-independence was relatively clear; it is one of a few countries that transformed itself from aid recipient to aid donor. In contrast, selecting a case that shows aid-dependence takes more things into consideration because of a number of externalities that affect the causal links between elite perceptions to aid-dependence. In this sense, Ghana is a good case in which the thesis can control other critical external factors relatively well based on the abovementioned historical background. However, it does not mean that, except elite perceptions on foreign aid, all other political, economic, social, international, geographical and historical factors/differences are perfectly controlled in the comparative examinations in the thesis. Acknowledging that economic development is an outcome of various factors, the thesis aims to investigate the political economy of elite perception of foreign aid and its impact on aid dependence.

Figure 1-3. Total ODA and Official Assistance Received



Source: The World Bank, World Indicators database (2013)

As most comparative historical analyses, this thesis adopts a qualitative and inductive approach. The question of the thesis begins with quantitative evidence of the alleviated and aggravating aid dependence in Korea and Ghana, respectively, and the thesis finds the answer through a qualitative approach of examining the elite perceptions. Qualitative methods are richer in meaning and suitable for investigating elite perceptions. A statistical description of a large population does not become a means of examining perceptions of a small number of elites who were engaged in foreign policy making. On the contrary, qualitative approaches are based on the philosophical belief “that truth is relative and that knowledge is constructed by human beings”, and that “our understanding of the world is a product of our personal assumptions, biases and prejudices” (Bless, et al., 2013, p. 15).⁹



As a part of qualitative study, the thesis relies on case studies with interpretive approaches. The thesis begins by describing two different elite perceptions in Korea and Ghana and continues by examining the political economy of the elite perceptions. Bevir and Rhodes (2003) note the importance of analysing the narratives and ideology of the elite as it helps one to understand any shifts in policy change. Basically, finding elite perceptions requires interpretive approaches.

⁹ As a quantitative measure to study the political beliefs of leaders, a number of scholars in political psychology use *operational code analysis* and variances of its formula. Schafer and Critchlow (2000) use it to analyze the predisposition toward the foreign policy of Bill Clinton, Dyson (2001) of Vladimir Putin, and Malici and Malici (2005) of Fidel Castro and Kim Il Sung. Critchlow (1998) one of the outstanding thinkers in operational code analysis, uses the method to illustrate that it is possible for leaders to change their basic foreign policy orientation using the examples of two Israeli leaders, Yitzhak Rabin and Shimon Peres. Operational code, however, is more suitable for examining a leader’s fundamental predispositions regarding the nature of foreign policy rather than analysing perceptions behind a specific foreign policy decision. It is one of the most prominent quantitative methods, but in many cases, operational code is used as a supplementary approach to double-check the qualitative analysis of predispositions of leaders instead of being used as the sole method.

Elite perceptions of foreign aid can be traced from the motivations behind aid-seeking foreign policy. The hidden motivations, in some cases, are identical to those motivations expressed openly in speeches or in announcements by members of the elite. In other cases, the actual motivations differ from what is claimed openly. Pointing out the challenges, Zartman (1966, p. 25) states that the “quagmires of uncertainty” of motivational studies ask researchers to be “psychoanalyst, father confessor, divine or simply frustrated hair-splitter.” For interpretive research, particular attention is paid to speeches and announcements made by the political leaders, foreign policy decision makers, and economic policy decision makers during the period of the significant foreign policy change. It is not always easy for a researcher to talk to or interview political elites as they are not readily accessible. This is especially true when an interview would concern events that took place in the distant past. Thus, most analysts use ‘at-a-distance’ content analysis of public speeches despite the potential drawback that public speeches are in many cases made with various political purposes in mind (Hermann, 1980; Winter, 2005). Investigations into elite perceptions primarily rely on memoirs and debates on foreign policy change, foreign aid, and national development. Major newspapers’ editorials and articles pertaining to the financial situation of the state are important sources. Through this examination, the thesis aims to interpret the reality “from the respondents [elites’] frame of reference” (Bless, et al., 2013, p. 16).

Searching for the different perceptions of members of the elite, however, is not the sole goal of the thesis. It is a study of the political economic impact of elite perceptions. The dynamics of situational, international, political, economic and historical factors surrounding the perceptions of the elite and the consequences are the subject of the thesis. Data from this part of the

research was derived both from secondary sources of existing literature and from primary sources. The categories of literature consulted in the thesis include International Political Economy, Foreign Policy, Politics, Economic Development, History, Political Psychology and memoirs of former government officials. As primary sources, government documents and statistics, and interviews with scholars, researchers in think tanks, and personnel at the pertinent ministries were used.

Two research trips were carried out for data collection and interviews. The first research trip was conducted in Korea in September 2012. The main purpose of the trip was collecting data, such as old periodicals and government documents which were archived in a form of micro-film in the Diplomatic Archive. Examining the case of Ghana, on the other hand, called for an additional methodological approach due to the absence of reliable and substantial data. Thus, the field trip to Ghana was carried out to conduct interviews in May 2013. As De Swaan (2000) and Simon (1996) suggest, interviews are a useful method of data collection when searching for elite perceptions. Notably, in exploring topics with multiple layers of meaning, a qualitative research interview is an ideal method (King, 2004, p. 21). No standardised questionnaire was used since the subject of this thesis is not merited by a quantitative method of structured questionnaire. As Babbie notes (2007, p. 276), the standardised questionnaire is not appropriate to the respondents from different backgrounds. Instead, interviews were conducted in a qualitative manner as an open-ended conversational style. Those who were engaged in the changes to foreign policy and to development policies were the top priorities for the interviews. However, there was limited access to those individuals who were engaged in the foreign policy change in the 1980s in Ghana; consequently, use was made of scholars and experts in the field. Those informants were

selected for their in-depth knowledge of economic development and foreign policy and for their experience in aid negotiations with donors. Interviews lasted approximately an hour and were recorded by audio-recorder. Even though they were extremely productive, it was unfortunate that brain drain in Ghana limited the depth of the research since most of the prominent former politicians and scholars who were engaged in the foreign policy changes in 1983 are now resident in the US or UK. A field trip to those countries was beyond the time and budget of the author. Therefore, the author tried to contact them through email but did not get any productive responses.

There were relatively less difficulties researching Korea-Japan negotiations because a substantial amount of government data and records are open to the public and a large body of literature has been developed. However, examining elite perceptions in Ghana had limitations due to the lack of data and records. Even though there are primary data recording negotiation processes between Ghanaian elites and their counterparts in the IMF and the World Bank, these were not accessible to the author. The IMF office in Ghana, visited by the author, refused to offer any records either. Instead, interviews were conducted to fill the gap left by these limitations.

1.3.1 An organising framework: Path dependence

The thesis is about the ‘path dependence’ which different elite perceptions initiate. Path dependence is one of the modes of investigation used in comparative historical analysis. In essence, it means that “the past affects the future” (Mahoney & Schensul, 2006, pp. 458-459). It also broadly means “what happened at an earlier point in time will affect the possible outcomes

of a sequence of events occurring at a later point in time” (Sewell, 1996, pp.262-3). However, it does not simply mean that history matters. Path dependence examines the temporal process through its own methodological and theoretical framework. Path dependence is about the process in which ‘initial conditions’ reach ‘critical junctures’ through ‘self-reinforcing processes’ and/or ‘reactive sequences’, and consequently the path is ‘locked in’ (Pierson, 2000).

At the centre of the path dependence framework, there is the notion of a critical juncture, which refers to “the adoption of a particular institutional arrangement from among two or more alternatives” (Mahoney, 2000, p. 513). A set of historical variables in initial conditions lead to a critical juncture. ‘Initial conditions’ is a rather controversial concept among path dependence theorists who debate whether the term means the beginning or before the beginning of path dependence. Some scholars believe that policy outcomes are influenced to only a limited extent by initial conditions. One analogy would be rolling a dice: the same initial conditions exist, but the outcome is not predictable every time (David, 1985; Arthur, 1994; Goldstone, 1998; Mahoney, 2000). The term ‘initial conditions’ means a situation or period which happened to be set temporally prior to the critical juncture. What matters is that the critical juncture can be defined as the start of the path dependence sequence, whereas the initial conditions exist before the beginning; they do not have limiting power over path dependence. However, initial conditions still matter since they influence and can often determine a policy outcome. It is not just a question of rolling the dice (the critical juncture), but about the factors leading up to the decision that would make rolling the dice seem rational in the first play (the initial conditions). In the field of political economy, the political economic variables that affect a specific policy decision can be the initial conditions of the policy decision as a critical juncture that sets a

country on an economic path.

Once a juncture is reached it is difficult to take a different path or to go back to the point where alternatives were available. The path becomes solidified through a process of limiting alternative options, and can be a self-reinforcing process and/or a reactive sequence (Pierson, 2000). Self-reinforcing processes or self-producing processes in path dependence mean a given outcome reinforces itself over time and thus stabilizes the direction of the path, preventing conversion. Path dependence economists mostly use increasing returns to account for the sequences. The increasing returns processes have three possible ends: ever-increasing returns, equilibrium, and decreasing returns. In paths with ever-increasing returns, self-reproducing sequences grow continuously. In contrast, the sequences shrink continuously in a path with ever-decreasing returns. On the other hand, paths with equilibrium stop at a point where there is no further self-reproducing processes (Pierson, 2000).

Reactive sequences also develop path dependence but they do so in a different way from self-reinforcement. Whereas self-reinforcement is that A reinforces A, reactive sequences are a chain of processes that reach to Z from A. When one sees Z, it is not easy to think of A as a cause, but in path dependence there are reactive sequences that leads A to B, B to C, C to D, etc.... and finally Y to Z. A precedent outcome becomes a cause of a subsequent event, and these chains connect to each other in a temporal manner. Once the course is set via these processes, it is not easy to alter the course due to increasing returns and increasing transaction costs (Pierson, 2000; Levi, 1997). Therefore the path becomes stable, inflexible, and dependent.

Despite some critiques claiming that path dependence is too deterministic, most writers on the subject of path dependence do not agree. For the latter, path dependence is a matter of stability rather than of determinism (Kay, 2005). According to North (1990, p. 99), path dependence is a methodology of conceptually narrowing the choice set through time, and thus it does not mean “inevitability in which the past neatly predicts the future.” The critical choice does not determine the consequences but does affect following policy sets by constraining the possible options. The stability does not mean that there shall be no policy change on the path for good. Instead, it means that the critical juncture limits alternative options. In that sense, Putnam (1993) explains why some governments succeed in democratisation while others fail and he quotes the case of Italy using the concept of path dependence. Putnam (1993, pp. 179-180) argues that “once development has been set on a particular course, organisational learning, cultural habits, and mental models of the social world reinforce that trajectory.” This idea becomes the foundation of institutions along with material ones and when they are shaken it opens possibilities for change (Thelen, 1999, p.397). Path dependence is a temporal process that narrows down possible conceptual, behavioural and political choice sets.

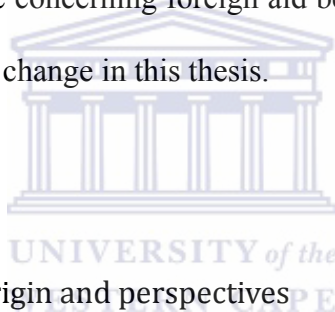
Path dependence, in the thesis, is a proper tool to explain the development of elite perceptions behind foreign policy decisions and their economic consequences. Applying a path dependence framework in explaining foreign policy decision-making in this thesis is particularly effective with some reasons. First of all, the initial period matters in foreign policy decision-making. In most cases, foreign policy decisions do not address issues which pop up out of nowhere. Foreign policy decisions are made to address latent issues. For instance, Korea and Ghana had suffered lack of financial capital for more than decades until foreign policy elites finally made decisions

in 1963 and 1983, respectively. Kuperman (2006, p. 538) also notes that “starting to make a foreign policy decision requires making a decision to make a foreign policy decision.” The decision to make a decision takes place in the initial period in a path dependence framework.

Secondly, the process of subsequent policy making after the junctures in Korea and Ghana shows the reinforcing and reactive sequences of path dependence. The domestic problems which elites tried to address cannot be alleviated through a single event of foreign policy decision (Kuperman, 2006, p. 538). Both in Korea and Ghana, the single foreign policy redirection did not alleviate scarcity of financial capital at once. Instead, foreign policy decision makers reassessed the previous foreign policy outcomes and made a new decision in response to the reassessment. Elites in Korea and Ghana also readjusted their foreign policy over and over but based on the outcomes of the previous foreign policy decisions. This ever-increasing divergence between the two countries began from a small difference in critical junctures where no one expected the upcoming divergent paths.

The aim of the thesis is to explain the link between elite perceptions of mercantilism behind aid-oriented foreign policy and aid independence or dependence. However, the thesis does not posit that elite perspectives alone determine economic outcomes or they are static. Elite perspectives are established by the influence of multiple factors, then become the basis of policies and are responsive to the policy outcomes. In the path, elite perspectives become reinforced or reshaped and are reflected in policy over time. The thesis is about the influence of elite perspectives of the wealth and power of nations on what nations choose as their key to obtain them. This thesis does not proclaim a deterministic approach. Instead, the thesis aims to explore the temporal progress

from the critical initial conditions shaping elite perception of aid to aid independence or aid dependence. Industrial mercantilism and indebted mercantilism derive from the perceptions of the members of the elite. Those perceptions materialise as foreign policy change and sets path dependence in motion. In shaping a path, elite perceptions serve as a blue-print; it is the horizon of possibilities beyond which alternatives cannot be imagined (bounded rationality) (Pretorius, 2006). According to Goldstein and Keohane (1993, p.12), “once an idea is selected, this pathway limits choice because it logically excludes other interpretations of reality or at least suggests that such interpretations are not worthy of sustained exploration.” In the same vein, the perceptions of members of the elite concerning foreign aid become initial conditions that lead to a critical juncture of foreign policy change in this thesis.



1.3.2 Path dependence: Origin and perspectives

Before the term ‘path dependence’ began to be used, a number of renowned thinkers used the concept to explain institutional development or economic development. One of the seminal works is *Economic Backwardness in Historical Perspective* by Gerschenkron (1962). In the book, the author suggests that a reinforcing process of increasing returns grants early industrialisers a set of favourable conditions that later industrialisers cannot easily replicate. Cardoso and Faletto (1979, p. 464) also rely on the path dependence understanding of economic development as seen in “late-late industrializers [...] locked onto paths of distorted development.”

Path dependence as a theoretical concept first began to be used in Economics. Path dependence,

in the beginning, was mostly used to understand expansion and persistence of pareto-inefficient suboptimal outcomes in technology such as the QWERTY keyboard (David, 1985). Increasing returns generated by insignificant historical events make people adopt a technology regardless of its lack of long-run efficiency, and the non-ergodic character of path dependence locks out more efficient technology (Arthur, 1989; 1994). North (1990), one of the pioneers who spread the concept of path dependence from Economics to Political Studies, applies path dependence to institutional development to account for divergent economic development. In *Elusive Quest for Economic Development*, Easterly's (2001) understanding of economic development can be also understood using the concept of path dependence (Page, 2006).

Even though path dependence was developed and popularised before it reached Political Science, the economists' approach of path dependence such as the QWERTY keyboard development model, is "too contingent and too deterministic" to apply to political development (Thelen, 1999, p.385). The initial openness of a critical juncture in which, according to economists, technological development can be tipped by small events, rarely exists in politics. Instead of initial openness and random tipping, political development or political decision is always circumscribed by antecedent situations. In contrast to the application of path dependence in Economics that losing technology simply dies out and disappears, evolution and change of power dynamics is the core in political development and losing institutions change their forms rather than simply disappear. Therefore, what intrigued political scientists was not the simple application of path dependence with respect to adoption or extinction. Rather, it was the concept of "locked in" in path dependence: once a path is taken, it has stabilising self-reinforcing power which locks out alternative options (Pierson, 2000).

In Political Studies, path dependence is appreciated as a tool to gain better understanding of temporal and exhaustive development of institutions or political systems. Path dependence provides deeper understanding in a form of moving pictures with sequences of time instead of a snapshot of synchronic causality (Pierson, 2000, p.263). It has been mostly used in analysing public policy while looking at either departure (critical juncture) or continuity (self-reinforcement). The critical junctures school accounts for the origin of different institutions. Even though this approach offers a great deal about cross national difference in terms of political institutions, it is not sufficient to explain how the critical junctures are sustained as a legacy. On the other hand, the self-reinforcement school can explain the stabilised and re-produced political institutions, but it does not account for how we end up with different political institutions (Thelen, 1999, pp.387-390). The thesis puts balanced weight on both a critical juncture and following reinforcement processes in order to look at the origin of different foreign policy and the lingering stabilising effect.¹⁰

1.4 Terms in the thesis

1.4.1 Aid dependence

This thesis defines aid dependence as a situation in which a country cannot sustain its national

¹⁰ In contemporary literature, Ohemeng and Anebo (2012) apply the path dependence framework to explain failure of administrative reform in Ghana. They argue that the repetitive regime changes and the obsession of every new regime with administrative reform broke the continuity of the path toward national development in Ghana

economy without foreign aid. However, before elaborating the application of the term in the thesis, as background, it would be helpful to set how the term aid dependence is used in the thesis within its historical context. Discussions on why a country remains aid-dependent have evolved in accordance with the debates and thoughts about what development is or should be. At first, aid dependence and development was understood in terms of economy but currently, many writers on development argue that development should not be considered from an economic point of view; it should include general human development factors, such as gender, health, and human rights. Observing such trends, Hettne (1995, p. 15) notes that debates and studies on development become “non-disciplinary” beyond multi-disciplinary. For instance, Sobhan (1996, p.122) sees aid dependence as “a state of mind, where aid recipients lose their capacity to think for themselves and thereby relinquish control.” The World Bank also avers that the condition of economic dependence creates a mentality of ‘let-donors-do-it’ among aid-receiving countries (World Bank, 1995).

However, for scholars who try to approach aid dependence at a more functional level, such as Riddell (1996), aid dependence is more related to lack of financial capacity of politically independent government rather than to the minds of people. Roger Riddell (1996, p. 24) defines aid dependence as a “process by which the continued provision of aid appears to be making no significant contribution to the achievement of self-sustaining development.” However, according to Lensink and White (1999), Riddell’s definition has some limits. They (p. 13) point out the many purposes of foreign aid and the complexity of economic growth, noting that “a country is aid dependent if it will not achieve objective X in the absence of aid for the foreseeable future.” These writers use the concept of “objective X” to avoid the fallacy of

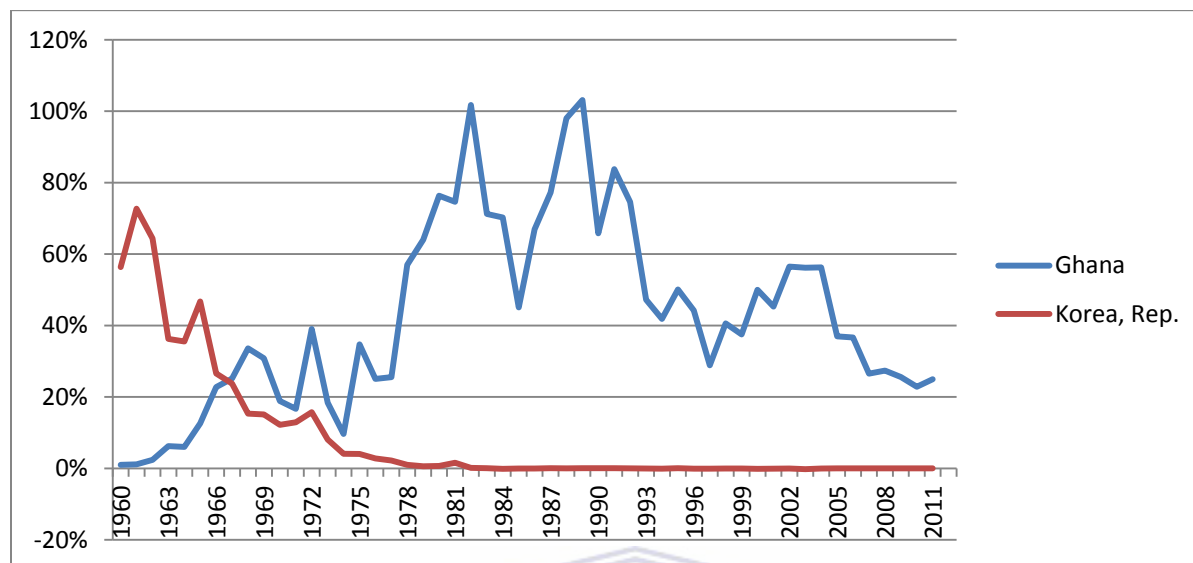
general assumptions that aid is only for economic performance.¹¹

The focus of the thesis is on sustained economic development through restructuring national industry. Thus, in this thesis, the term aid dependence takes a more functional approach rather than human-oriented one, and thereby, the emphasis goes to gross capital invested in domestic industry restructuring. To measure the aid dependence, the thesis makes use of a proxy measure. One renowned foreign aid scholar, Bräutigam (2000, p.9) suggests that the reason behind the usage of proxy measures in gauging aid dependence is as follows: “Since these states and processes of aid dependence involve either a counterfactual, or a psychological state, or are otherwise difficult to measure, we need a proxy measure.” In her research on the impact of foreign aid on government, she chooses the ratio of aid to central government expenditure for the proxy measure.¹² The thesis examines aid intensity using a proxy measure of ratio of aid as a percentage of gross capital formation (former gross domestic investment) in the bigger context of industrial restructuring for sustained economic growth. Computing aid dependence using the proxies, one can get a result like Figure 1-4.

¹¹ In addition, they underline that one should distinguish bad aid and aid dependence. The term “bad aid” describes ineffective aid which fails to accomplish an intended goal of the aid. However, it does not lead the recipient country of bad aid to aid dependence or vice versa.

¹² However, due to lack of data she replaces it to aid ratio to GNP

Figure 1-4. Aid dependence



The ratio of total ODA and Official Assistance to Gross Capital Formation

Source: The World Bank, World Indicators database (2013)¹³

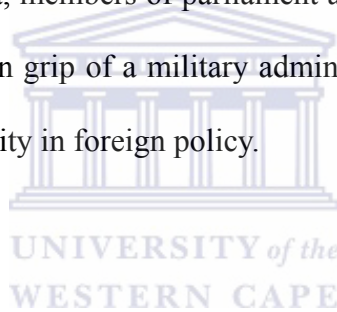


1.4.2 Elite

The thesis uses the term ‘elite’ to refer to a small group of decision-makers who occupy top hierarchical positions in a government. In that sense, the elite in the thesis means the ruling elite. However, even though the ruling elites in some cases include bureaucrats, civil servants, the political elite in executive, legislative and judicial structures and the business elite (Brezis & Temin, 2008, p. 1), the thesis narrows down the bracket of the elite into a smaller range of decision-makers who has direct and official authority to decide national affairs. Therefore, it does not include non-ruling elites either. In other words, the thesis excludes those who have access to prestige economically, culturally or religiously, such as opinion-makers in mass-communication media, academics, religious leaders and international or local advisors. They

¹³ Compiled by the author based on the World Bank Indicators.

have influence and sometimes shape opinions about a particular policy decision, but they are not in the post of and do not have authority of decision-making in national affairs. In the same vein, voters, electorates or lobbyists are not elites: they might influence decision-making in an indirect way but their influence always has to go through the decision-makers, i.e., elites. Even though the thesis does not regard them as decision-making elites, their roles are not disregarded in decision-making in policy since they make influence on elite perspectives or attitudes. Accordingly, the elite in the thesis include heads of state, high-level civil servants in the departments of agriculture, economy, industry planning, finance, trade, foreign affairs, and defence. In both Ghana and Korea, members of parliament are not included since under the two regimes, parliament was in the iron grip of a military administration and did not function as an influencing or decision-making entity in foreign policy.



1.4.3 Perceptions, views and perspectives

Jervis (1976), in his seminal book *Perception and Misperception in International Politics* explains why we should examine decision makers' beliefs about and images of the world and others. Without reference to those perceptions, it is impossible to understand foreign policy and its intention. As he succinctly puts it, "if that is the way the statesman saw the situation, it is no wonder that he acted as he did" (p.14). In political psychology it is generally assumed that foreign policy decisions are "based less on their objective circumstances than their perceptions of those circumstances" (Renshon & Renshon, 2008, p. 511). For example, in understanding rebuilding South Korea-Japan relations, it is not enough to look at the objective fact that North Korea was economically more powerful than South Korea. Rather, what needs to be more

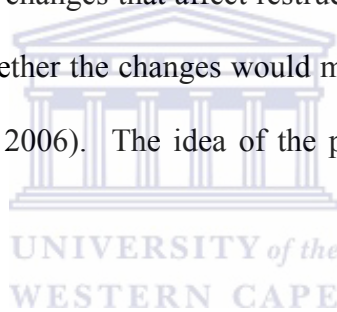
focused is the belief of South Korean elites that South Korea should act not to get invaded again by industrialised North Korea. In addition, as Jervis notes, “the world is so complex and our information processes so limited” (Jervis, 2006, p. 650) In other words, the whole complexity of the world does not affect the policy decisions. What affects the policy-making is what elites believe based on the limited set of information they have. Thus, instead of trying to examine the complex international and domestic situation surrounding elites, the thesis tries to focus on the perceptions of elites.

Reis and Moore (2005, p.3), in *Elite Perceptions of Poverty and Inequality*, define perceptions as “a combination of cognitions (non-evaluative understanding); norms (internalised ideas about appropriate roles); and values (ideals about what might be).”¹⁴ According to their analogy, if opinions are weather, perceptions are climates. Perceptions are more stable and last longer than short-term opinions driven by current events. Perceptions include both cognitive and normative orientations. A cognitive perspective is about how to see and interpret the world; realists for example see the world as an anarchic international system, while liberalists see multiple forms of international governance despite the absence of a world government. A normative perspective involves what ‘ought’ to be done with respect to particular issues. When UN officials confirmed that chemical weapons had been used in 2013, heads of international affairs such as US Secretary

¹⁴ Reis and Moore (2005) approach poverty alleviation by examining contemporary elite perceptions of poverty and inequality. They conducted interviews in order to extract elite perceptions of poverty in selected countries representing the Global South: Brazil, Philippines, Bangladesh, Haiti and South Africa. They compared the perceptions and found that, despite the wide diversity of developing countries, power was in the hands of a small group of elite who perceived poverty ambiguously as a possible threat to themselves and simultaneously as a problem for others. They define elite perceptions of poverty as “values and beliefs that constitute elites’ assessments of poverty” (p.3).

of State John Kerry, Saudi foreign minister Prince Saud Al Faisal, China's President Xi Jinping, and the President Vladimir Putin of Russia reacted differently, based on what they thought the response ought to be, and this is a good example of normative perspectives.

In this study, perceptions, views and perspectives are used interchangeably. The term 'elite perceptions of foreign aid' refers to elites' basic values and beliefs that constitute their notion of what foreign aid is, what foreign aid should be, and what good foreign aid has done. Elites matter in aid independence because they make decisions in national affairs. When elites make decisions to adopt or block certain changes that affect restructuring of the national economy, the decisions came from their idea whether the changes would make impacts in favour of or against the elite (Acemoglu & Robinson, 2006). The idea of the potential gain or loss refers to elite perceptions in the thesis.



1.4.4 Foreign policy

In the mid-1950s when foreign policy emerged as a single and separate subject of research, it was considered as the combination of the following: relatively permanent material elements such as geography and natural resources; less permanent material elements such as the level of industrial and military development; and, human elements such as population and leaders (Macridis, 1989, p. xv). This example of disassembling of foreign policy was a reaction to the simplistic explanations of realism, a theoretical school of thought rooted in power politics, and it represented the emergence of foreign policy analysis as a separate subject of research. Since, there has been continuous development accompanied by heated debates and breakthroughs in

foreign policy studies. Among those, a number of seminal works by Snyder, Bruck and Sapin (1962), Rosenau (1966), Allison (1971), and Janis and Mann (1977) led contemporary foreign policy thinkers to accept that actors at different levels play their parts in shaping foreign policy: individuals, decision making groups, and institutions. Various other factors in foreign policy, including societal and cultural factors, were also identified.

Even though foreign policy began to receive attention as a subject after World War II, scholars and writers were not enthusiastic about conceptualising what foreign policy is. In the 1970s, some writers began to point out the broad conceptualisation of foreign policy which was taken for granted (Hermann, 1978, p. 26; Cohen & Harris, 1975). Referring to the lack of clarity in conceptualisation, Cohen and Harris (1975, p. 389) note as follows:

While a reasonable consensus obtains among analysts regarding the general nature of foreign policy—it is a set of goals, directives, or intentions, formulated by persons in official or authoritative positions, directed at some actor or condition in the environment beyond the sovereign nation state, for the purpose of affecting the target in the manner desired by the policy makers—to have said that ins not to have said very much.

Despite various attempts to standardisation, the definition or conceptualisation of foreign policy varies depending on the focus of the specific foreign policy; for example, internal and external driving factors of foreign policy, foreign policy decision making processes, or outcomes of foreign policy. However, as Anderson (1984, p. 159) succinctly notes and as expressed clearly in Cohen and Harris's account, there are differences in definitions of foreign policy but one obvious commonality is that "foreign policy is a goal directed activity" applied by a government towards external entities outside its sovereignty.

In the pursuit of foreign policy, a government uses diplomacy. The word diplomacy is derived from *diploma*, an ancient Greek term referring to a “folded document” (2002, p. 37). Nicolson (1950, pp. 13-14) notes that the term diplomacy is sometimes used as a synonym for foreign policy, a process of negotiation, a branch of embassy, or skill to conduct international negotiation. Kissinger’s *Diplomacy* (1995) uses a broad conception of diplomacy which can be replaced with foreign policy or international politics. On the other hand, Berridge (1995), in his book *Diplomacy*, uses the term to refer only to the conduct of international negotiations.

This thesis defines foreign policy as a goal directed government policy toward external entities and diplomacy as a whole range of actions executed by the government in pursuit of the foreign policy goal. In aid directed foreign policy, the goal becomes foreign aid, planned and executed by an aid-recipient government towards foreign aid donors. In this context, the thesis uses the term ‘foreign aid policy’ referring to an aid-receiving country, it means foreign policy which is designed and executed to obtain aid from abroad. On the other hand, when foreign aid policy is used to aid donors, it means foreign policy regarding giving aid.

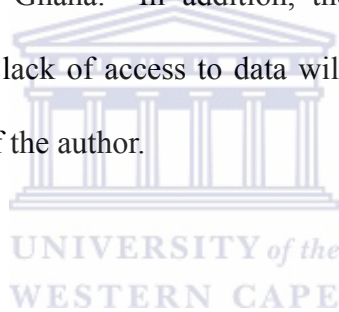
1.5 Structure of the thesis

The thesis is structured as follows. Chapter one introduced the research questions and set out the claims of the thesis. It also outlined the methodology and approach of the research, and defined terms used in the thesis, as such delimiting the research conceptually. Chapter two reviews the

development of literature on foreign aid policy. Despite the impact of foreign aid in many aid-recipient countries, studies of foreign aid policy have evolved around the donor side of that policy. The chapter examines mainstream literature on donors' foreign aid policy. It also examines the recipients' foreign aid policy, which is an issue that has been marginalised in the literature. Furthermore, the chapter suggests mercantilism as an alternative framework to account for recipients' aid-driven foreign policy. Chapter 3 provides the rationale why the thesis is focusing on elites. The role of elites in foreign policy making and in economic growth is discussed. The chapter offers not only elite-oriented perspectives but also various alternative views on factors in foreign policy making and economic growth. The latter part of this chapter examines the ideologies that influenced elites in Korea and Ghana. In this part, elite nationalism in Korea and Ghana is reviewed to build a better connection with elite mercantilism. Based on the literature reviews in Chapters two and Chapter three, the chapters that follow examine a case of industrial mercantilism in Korea in Chapter four and indebted mercantilism in Ghana in Chapter five. Each case examines how elite perspectives of foreign aid in aid-seeking foreign policy shaped a path from the initial conditions, to a critical juncture and to reinforcement and stabilisation. Based on the findings in the case study, each chapter analyses the political economy of aid-directed foreign policy and then defines elite perceptions that lead to industrial mercantilism, and elite perceptions that lead to indebted mercantilism in the light of aid dependence. After the juxtaposition of the two cases in Chapter four and five, the thesis ends with Chapter six which concludes with findings and a summary.

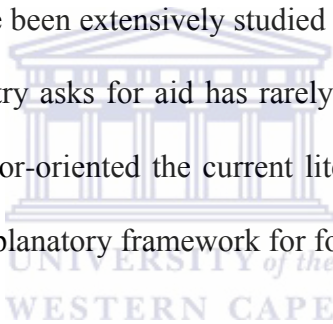
1.6 Conclusion

The thesis is about how elite perceptions of foreign aid affect aid (in)dependence. It uses a methodological framework of path dependence to examine the link and juxtaposes two cases: Korea and Ghana. The thesis, as research using comparative historical analysis, does not intend to extract a grand theory or lessons from one case to the other. The two cases described in the thesis are different in many ways: time, geography, geopolitical conditions, natural endowments, culture, history, etc. Taking those differences into account, by juxtaposing the two different paths, the thesis aims to highlight the critical role that elite perceptions play in aid independence in Korea and aid dependence in Ghana. In addition, the part which was not sufficiently addressed in the thesis due to the lack of access to data will be researched in future occasions through post-doctoral researches of the author.



Chapter 2 Aid-directed Foreign Policy

This thesis is about elite perspectives on foreign aid and its impact on economic growth. Therefore, as background, this part of the thesis first reviews literature on foreign aid. The idea of foreign aid emerged in the nineteenth century and is a relatively new international political phenomenon bearing in mind the long history of international politics. However, it is of importance in the contemporary international political economy, and a brief reflection on the discourses on foreign aid shows how donor-oriented foreign aid has evolved. Regarding foreign aid policy, the literature pays far more attention to the donor and very little to the recipient. The reasons why a donor gives aid have been extensively studied in aid literature. On the other hand, the question why a recipient country asks for aid has rarely been raised. This chapter aims to show how Western-centred or donor-oriented the current literature on foreign aid policy is. It then aims to offer an alternative explanatory framework for foreign aid policy.



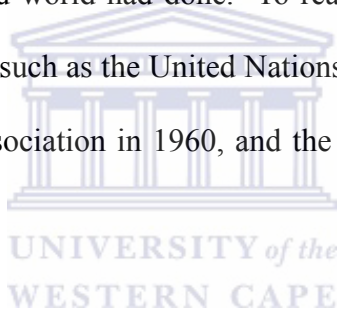
The first part of the chapter examines various views on what development and foreign aid should be. The chapter then reviews literature on donors' foreign aid policy. In the study of foreign aid, economists were mainly interested in aid effectiveness whereas scholars in Political Economy and International Relations have been giving more attention to the donor's intention. This part of the chapter looks mainly at literature in Political Economy and highlights donor intentions: commercial interest, military interest, altruism and other mixed interests and good will. Thirdly, the chapter examines the scarce body of literature on the foreign policy of recipient countries. The existing theoretical frameworks, such as the submission model and consensus model, are introduced. The chapter concludes by suggesting an alternative mercantilist model to understand the aid-directed foreign policy of recipient countries.

2.1 Brief history of debates on foreign aid and development

The evolution of debates on foreign aid is based on what donors have been thinking about development over time (van de Walle, 2001, p. 193). Although discussions on development emerged in the early 1940s, full-fledged debates on foreign aid began after World War II (Tarp, 2010). After that war, even though the aid flow was fundamentally based on the logic of the Cold War and post-Colonialism, the debates on foreign aid still were motivated mostly from an economic perspective.¹⁵ The first serious examination of foreign aid, *Problems of Industrialisation of Eastern and South-Eastern Europe* appeared in *The Economic Journal* (Rosenstein-Rodan, 1943). In this pioneering article, Rosenstein-Rodan argues that to make the world more equal in terms of income, the abundant labour of “international depressed countries” should meet the capital of industrialised countries. For that, either labour or capital should move toward the other. However, any movement of labour to industrialised countries through emigration entails many practical problems, and so it is more practical for capital to move into the depressed countries and to use their labour for industrialisation. Nevertheless, since private investors in industrialised countries are not willing to take the risk of lending large amounts of money for industrialisation elsewhere, the governments in developing countries need to secure the lending or lend the capital themselves. The idea of moving capital to depressed countries became the basis of the pro-foreign aid notion of ‘Big Push.’

¹⁵ Until 1955, the USA, the UK and France accounted for 90% of total world aid. The UK’s aid went to the Commonwealth members and France’s aid went to its former colonies. The aim of US aid was to “help free people of the world from the threat of Communism” (US President Truman’s 1949 speech, quoted in Riddle, 2007).

In the 1960s, the discourses on foreign aid expanded to the political sphere. Rostow (1964; 1971) bridged economic aspects of foreign aid and politics through his well-known concept of “take-off” (Riddell, 1987). Along with Rostow’s model of linear economic growth, the success of the European Recovery Program, better-known as the Marshall Plan,¹⁶ inspired economists and politicians in North America. They began to believe that the same economic success in the Third World was possible through foreign aid. In the 1960s, technical assistance became a big component of aid, based on the optimism that the traditionally under-developed world could also be modernised as the industrialised world had done. To realize the optimism, multilateral aid-operating institutions were created such as the United Nations Development Programme in 1960, the International Development Association in 1960, and the Development Assistant Committee in the OECD in 1961.



The 1970s, however, saw frustration take over from optimism. It became broadly accepted that the success of the Marshall Plan could not simply be repeated in another part of the world and it was recognised that aid benefited only a few members of the elite in the Third World. The belief in a trickle-down effect was abandoned and the direction of aid was turned toward poverty alleviation, which was also referred to as the basic needs strategy. However, with the beginning of the 1980s, the new direction became overshadowed by debt crises. Stabilising macro-finance emerged as a core agenda among multilateral aid institutions, and as a new norm, structural adjustment programs (SAPs), involving conditions attached to the aid, became a prerequisite for

¹⁶ During 1948 to 1952, the US transferred US\$13 billion to Europe which was 2% of the GDP of the US (Thérien, 2002).

receiving aid or rescheduling service of debt. Even though there were a few claims from unorthodox thinkers asking for “adjustment with a human face” (Cornia, et al., 1987), voices favouring poverty alleviation became subdued and economic neo-liberalism known as the Washington Consensus became the mainstream principle of aid transfer in the 1980s (Williamson, 1997).

The collapse of the Berlin Wall and the end of the Cold War became momentous historic events in the field of foreign aid as well as in other fields of International Relations. The need for supporting foreign regimes in the face of expanding ideological antagonists had gone, and indeed, foreign aid drastically declined after 1992. In the midst of this fall-off in aid, the failure of the SAPs in the 1980s led to pessimism about foreign aid in general. In the meantime, aid fatigue and donor fatigue became popular terms and poor domestic governance emerged as the new challenge to tackle for effective foreign aid (Nelson, 1990; Haggard & Kaufman, 1992; Killick, 1998).¹⁷ To reverse the pessimism, lengthy discussions took place initiated by multilateral aid-giving institutions such as the World Bank and the Development Assistance Committee (DAC) in the Organisation for Economic Co-operation and Development (OECD). As an outcome of those efforts, poverty elimination emerged as a new core target of development (World Bank, 2000). After the events of 11 September 2001 in the US, heads of donor countries and international policymakers began to pinpoint poverty as a root of global terrorism (Piazza, 2006, pp. 159-160). This gave a practical and rhetorical ground to use aid as a means to fight global poverty for ‘home land security’ as expressed in the statement by US President George

¹⁷ Critical factors for economic development such as a leader’s political fear or economic doubts, bureaucratic managerial capacity, and political stability in recipient countries, were examined only in the context of adopting a stabilising programme: as the Western donors intended (Nelson, 1988).

Bush: “We fight against poverty because hope is an answer to terror” (Blustein, 2002).¹⁸

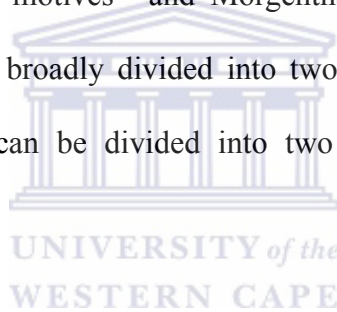
Today, there are worries that aid has become a “pop product” championed by rock stars and Hollywood celebrities without any serious and systemic examination of the consequences. However, a substantial body of contemporary aid literature suggests that aid promotes economic and socio-political development (Tarp, 2010). So-called ‘Big Push’ proponents claim that aid enables poor countries to break out of the poverty trap and, ultimately, to ascend the ladder of development and end poverty (Sachs, 2005). In contrast, some critiques of foreign aid offer various absorptive capacity problems¹⁹ relating to aid (Easterly, 2006; Moyo, 2010). The issues of how to make aid more effective has been in the centre of aid discussions among donors, and aid effectiveness is the main issue at the OECD meetings on foreign aid, such as the Paris Declaration on Aid Effectiveness (2005); and the Accra Agenda for Action (2008). Recently, however, the focus changed from “aid effectiveness” to “development effectiveness” as in discussions by the Busan Partnership for Effective Development Co-operation in 2011 (Wenping, 2013). In addition, with a rising recognition that remittance and trade can boost or offset the benefits of foreign aid, both the pro- and anti-aid theorists are asking for cross-sector policy collaboration in which policymakers in different sectors can work together to make foreign aid effective.

¹⁸ Quoted in Piazza, 2006.

¹⁹ These absorptive capacity problems can be put into four categories: decreasing returns, the pipeline effect, Dutch disease, and socio-political consequences. The pipeline (or bottle neck) effect refers to failures caused by a long lag between commitment to aid-giving and actual disbursement. Dutch disease is a rise in the exchange rate due to the sudden inflow of monetary aid and following loss of competitiveness in recipients’ terms of trade. Finally, socio-politically, it is known that aid can distance governments and the elites of recipient countries from their responsibility and sense of ownership. However, in general, absorptive capacity indicates decreasing returns: when aid reaches a certain point the marginal return of aid decreases.

2.2 Donors' foreign aid policy

Looking at foreign aid from the perspective of International Relations, foreign aid is “one of the most original political innovations of the twentieth century” (Thérien, 2002, p. 449). Throughout history, no wealthy nations transferred significant financial resources to poor nations, yet, since the late 1940s, more than US \$ 1 trillion of monetary aid was sent from the North to the South. Most of the literature on International Relations has sought the reasons why aid is given. Riddell (2007) specifies eight clusters of motives²⁰ and Morgenthau (1962) identifies six²¹, yet the reasons behind aid-giving can be broadly divided into two groups: self-interest and altruism. Further, reasons of self-interest can be divided into two groups: security and commercial benefits.



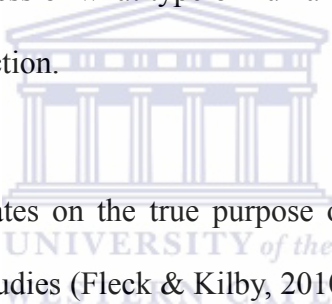
2.2.1 Self-interest: Aid as a means to national security

Foreign aid was developed as a tool of diplomatic realism. There were aid-like behaviour before 1945 such as aid for relief, colonial development and technical assistance but these were limited in scope: full-fledged aid began expanding because of Cold War rivalry. The origin of foreign

²⁰ Riddell (2007) divided the motives in aid-giving into six traditional motives and two growing ones: (1) emergency aid; (2) developmental aid; (3) aid for demonstrating solidarity; (4) aid for national political interests; (5) aid for national commercial interests; (6) aid given for reasons of historical ties; and two currently emerging motives; (7) aid for global goods and against global enemies; and (8) human rights oriented aid.

²¹ These include: (1) humanitarian aid; (2) subsistence aid which helps recipient governments become subsistent by filling budget deficits; (3) bribery; (4) military aid; (5) prestige aid that is not practically helpful to recipient countries and only shows the generosity or financial superiority of donors e.g. building unused highways; and (6) aid for economic development

aid makes the realists' arguments plausible. Thus, Lancaster (2007) asserts that foreign aid would probably not exist today, had there not been the Cold War. In the same vein, Morgenthau (1962, p. 309) emphasizes that foreign aid must be in the hands of 'political experts' and not in those of economists or philanthropists, as military policy must be in political hands and not in those of the generals; after all, foreign aid policy is a "weapon(s) in the political armory of the nation" as is the case of military policy. Since foreign aid is a policy tool linked to security, Morgenthau adds, those in the province of politics, such as policy makers or political thinkers, have absolute priority dealing with foreign aid. The purpose of giving aid is to secure political advantages and this applies regardless of what type of humanitarian or developmental causes are quoted to gloss or embellish transaction.



Along with the philosophical debates on the true purpose of foreign aid, some scholars have found motives through empirical studies (Fleck & Kilby, 2010; Alesina & Dollar, 2000). In *Who gives Foreign Aid to Whom and Why?*, Alesina and Dollar (2000) find that foreign aid is directed by political and strategic considerations of donor nations as much as it is guided by the needs of recipients.²² Particularly after 9/11 in the US, dominant contemporary aid literature sees national security as a driving motivation for aid-giving (Woods, 2005; Riddell, 2007). Despite the recent emphasis on aid for development, especially from multilateral aid institutions, realists argue that the ultimate purpose of aid for development still lies in national security. Aid is a supplementary tool of diplomatic and military endeavours: it originated from the belief that

²² In contrast to the realist school who regard a political aspect as being inherent to foreign aid, an opposing school of scholars, mostly economists, blames the political inclination of aid-giving for the cause of ineffectiveness of aid (Killick, 2004).

“a root of the national security threat ... is the lack of development, which cannot be addressed by military and diplomatic means alone” (USAID, 2005, p. v).

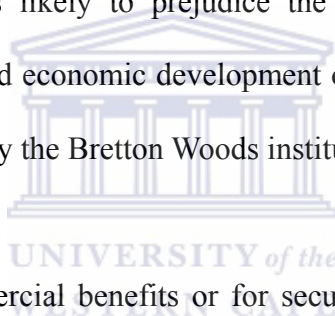
2.2.2 Self-interest: Aid as a tool for economic benefits

Along with national security, the other pillar of the self-interested origin of foreign aid is commercial benefits. From this perspective, trade promotion is the top priority for many aid-giving countries, and donors have little humanitarian or developmental concern in mind (McGillivray, 2003). Foreign aid with economic motives is pejoratively labelled as “rogue aid” (Naím, 2007); in contrast, aid given with a diplomatic purpose is said to be justified.

In most contemporary western literature, aid from the “traditional” or “established” donors (i.e. member countries of the DAC in the OECD) is depicted as given for the developmental purposes of recipient countries, or if it is self-interested, for diplomatic purposes. In contrast, aid transfer between developing countries or aid given from “emerging” donors (i.e.: non-DAC donors)²³ is depicted as neo-imperialistic. Most western scholars regard US aid to Egypt and Pakistan bearing geopolitical concerns as high-minded aid. On the other hand, Chinese aid to Nigeria for

²³ In much of the aid literature, the terms “old”, “traditional” or “established” donors refer to members of the DAC in the OECD. “New” or “emerging” donors are more controversial terms for aid-giving developing countries which are not members of the DAC. Woods (2008) uses the term to refer to aid-giving non-DAC countries including China, the United Arab Emirates, Saudi Arabia, South Korea (Korea became a member of the DAC in 2010), Venezuela, India, Kuwait and Brazil. He explains that they are “emerging” and should not be called “new” donors since their aid-giving is not a new phenomenon, taking an example of China which started giving aid from 1949. However, even the term “emerging” donors is regarded as a loaded one, and a more neutral term “non-DAC donors” is generally used.

commercial concerns is treated as “rogue aid”. Aid from emerging donors, mostly represented by China, is described as bribery for commercial benefits with little or no concerns for the economic or social development of aid-receiving countries (Mohan & Power, 2008). Chinese and Indian aid to oil producing or resource-rich countries is likewise vilified since it is mainly for improvement of trade and investment and it does not come with conditions attached, for example better governance or improvement in human rights. Thus, some commentators urge western countries to improve their understanding of the abhorrent aid-giving pattern of emerging donors (Kragelund, 2008). A chairman of the DAC also warns that aid from non-DAC donors, not bound by the DAC standards, is likely to prejudice the balance of payments of indebted recipients. It is also likely to retard economic development of poor countries as it enables them to delay the adjustments required by the Bretton Woods institutions (Manning, 2006).



However, whether it is for commercial benefits or for security reasons, there is no difference since both types of aid are given for the benefit of donors. Security reasons are not nobler than commercial reasons. In addition, traditional donor countries also allocate their aid based on self-interested economic concerns as well. The Chinese government does not hide that its aid to Africa began with a political motive but turned to economic pragmatism since the advent of Chinese economic reforms in the late 1970s. In the same vein, instead of calling it “aid”, China prefers “mutual assistance among friends that falls into the category of South-South Cooperation” (Wenping, 2013, p. 4). Some theorists even favour the growing influence of the non-DAC donors (Reisen, 2008; Woods, 2005, 2008; Bräutigam, 2009). As Bräutigam (2009) points out in *The Dragon’s Gift*, foreign aid is fundamentally a part of foreign policy, and China is not an exception. Nonetheless, it is noteworthy that the commercial motivations of emerging

donors are demonised as “rogue” motivations by the anxious mainstream western theorists.

2.2.3 Altruism: Moral obligation

The moral justification for aid-giving is another long-standing motive in the study of motivations of aid-giving.²⁴ Of the various ethical and philosophical grounds for the moral justification, a rights-based perspective and utilitarianism are mostly recognised. The former claims that “everyone has the right to a standard of living adequate for the health and well-being... including food, clothing, housing and medical care and necessary social services’ (The Universal Declaration of Human Rights, Article 25(1)). The latter, utilitarianism, insists the morality of aid because “a dollar redistributed from a rich man to a poor man detracts less utility than it adds, and therefore increases the sum total of utility” (Streeten, 1983, p. 380). Even though it is true that foreign aid is transferred strategically and for economic interests, moral advocates claim that egoistic explanations alone are not sufficient to account for aid-giving. There is a more important reason than hard-headed national interests, and this reason is the humanitarian and egalitarian principle.

Scholars seeking a moral justification for aid-giving find the origin in the Four Point Speech, the inaugural speech of US President Truman in 1949. In the speech, Truman proclaims continuous support of the US for international peace and development that does not expect any reciprocal privileges based on “the conviction that man has the moral and intellectual capacity”

²⁴ However, the altruistic argument has been largely dismissed in the sphere of International Relations.

(Lumsdaine, 1993; Hattori, 2003). Yet, it is noteworthy that the same speech is also quoted by many realists to suggest the realistic origin of aid-giving since the speech is also inundated with the necessity of supporting “like-minded nations”, “our partners”, or “freedom-loving nations” against “the dangers of oppression” or “false philosophy” of communism.

Nonetheless, scholars claiming ethical motives for aid-giving have put forward empirical evidence. Lumsdaine (1993) argues that as much as two-thirds of aid has been given in accordance with ethical principles rather than national interests. In terms of aid ratio to GDP, the largest aid donors have not been countries with strong interests in the Third World but have been North European countries with strong domestic social welfare values, even during the Cold War. In addition, aid has been given in a stable manner, which contradicts the realists’ gloomy prediction that aid would have vanished with the end of the Cold War. A growing role for multilateral aid agencies, which reduces the direct influence of donors, is another example. Continuous efforts by the DAC in the OECD to shift members towards grants rather than loans and towards untied aid rather than tied aid evidently support the moral dimension of aid-giving. Also, an increasing international acceptance of global burden-sharing through 0.7 per cent of gross national income (GNI) and a shift in aid allocation from middle-income to poor countries, both seem to support the idea of a moral ground for aid-giving (UN Millenium Project, 2005; The Commission for Africa, 2005; Sachs, 2005).

2.2.4 Hybrid model

Discussions of reasons why aid is given mainly cited three reasons: national security, economic

benefits and altruistic motives. However, in general, contemporary scholars agree on so-called “hybrid models’ indicating that aid is given for a combination of the different motivations (Berthélemy, 2006, p. 179). Even though most donors give aid for self-interested motives, whether geopolitical or commercial, a degree of selectivity can be traced, based on altruistic concerns such as recipient needs and merits. However, it does not necessarily mean that those motivations are evenly-balanced, and it is generally agreed that donors’ interests dictate their aid-giving behaviour (Alesina & Dollar, 2000). The norm among contemporary thinkers is that there is no universal rule or system that explains the aid-giving behaviours of all donors. Even an individual donor has different reasons for giving aid.



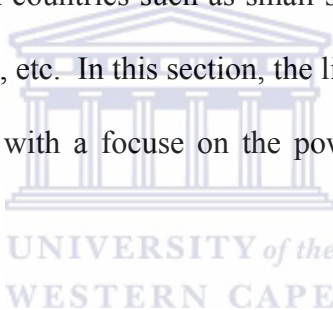
2.3 Recipients’ Foreign Aid Policy

The foreign policy of aid giving countries such as motives or strategies for aid allocations have been the topic of a great number of studies, but aid-seeking foreign policy in recipient countries has been largely ignored and insufficiently explored (Moon, 1985). Recipient countries have not been the subject of systemic examination of aid transfer, and the question of why a country seeks foreign aid has never been seriously raised. This section briefly reviews the scarce literature of aid recipients’ foreign policy. Due to the scarcity, literature introduced in this section includes works on foreign policy of the Global South since there hardly is substantial literature on foreign policy of ‘aid recipients’. Given that all aid recipient countries are within the category of the Global South, this would not be a groundless extension of the application. In what follows, literature on aid-receiving countries’ foreign policy is briefly reviewed and further, the main

views on recipients' foreign policy are examined: submission and consensus.

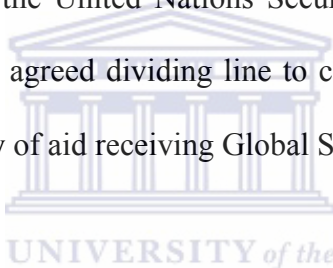
2.3.1 A brief literature review on recipients' foreign policy

Today, the term Global South might be the most commonly used to refer to “African, Asian, and Latin American nations (which) still are relatively under-developed vis-à-vis the global north countries” (Braveboy-Wagner, 2003, p. 5). Before the United Nations (UN) came up with this term in the 1970s, a number of terms that entailed international power relationship were used to refer to aid receiving Global South countries such as small states, weak states, underdeveloped, dependent nations, the Third World, etc. In this section, the literature on the foreign policy of the Global South is briefly explained with a focus on the power relationship contained in those names.



“Weak”, “small” and “poor” countries are common descriptions for aid-receiving countries. From a realist's point of view, weak, small and poor states do not pose sufficient weight to influence international politics and therefore their relative deficiencies vis-à-vis powerful, big and wealthy states results in their dismissal from a range of analyses in International Relations (Neack, 2008, pp. 164-5). Rothstein (1977) is one of the pioneers who attempt to explain foreign policy behaviour of small countries against the realist mainstream. In a book titled *The Weak in the World of the Strong: The Developing Countries in the International System*, Rothstein (1977, pp. 105-106), while using new, weak, developing and underdeveloped countries as synonyms in the book, notes that foreign policy is important to any new state since it reaffirms the new state's independence and identity. Nevertheless, in new and weak states, most foreign policy decisions

are dominated by constraints rather than choices due to lack of organisational and informational capacity of the state. In addition, foreign policy of a small power has a high propensity of being personalised because its policy making institution is under-developed and the public has little interest in foreign policy. On the other hand, some scholars put more focus on the definitions of those relative concepts of weak, small and poor. According to Singer (1972), “weak” countries are defined by wealth, organisation, and status, while “small” has been used to refer to countries which are small in physical factors such as population or GDP. As one of the attempts to clarify the definitions, Vellut (1967) classifies great, medium, small and smaller powers using indicators such as population, GDP, veto in the United Nations Security Council and the size of armed forces. However, there is still no agreed dividing line to categorize them and those terms are used to show the relative deficiency of aid receiving Global South vis-à-vis the North.



Another set of terms that shows power relations clearly are ‘developing’ against ‘developed’ countries. The “developed-developing” dichotomy was recommended in referring to aid-giving and receiving countries since it was regarded as less political and less condescending than “rich-poor” or “advance-backward” (Commission of International Development, 1969). At first, the term “under-developed” countries was used as it is found in a UN document²⁵ in 1951, but this “derogatory” term soon became replaced by “developing” or “less-developed” (Wolf-Phillips, 1979, p. 106). Due to the growing monetary flow from North America and Europe to Africa, Asia and Latin America, the term “aid” came into common use, and along with the popular use of aid, the name “developed” was given to aid-giving countries and “developing” or “less-

²⁵ UN document *Measures for the Economic Development of Under-Developed Countries* (E/1986 ST/ECA/10 of 3 May 1951)

developed” to recipient ones (White, 1974). The broadly-used dichotomy of “developing” and “developed” originates from emergence of aid in the late 1950s and the early 1960s.²⁶ However, in practice, donors are not always developed or recipients developing, and donors are not always rich or recipients poor. There is a list of developing countries which includes one of the world’s biggest donors: China.

The Third World, as a collective term, is another common name to indicate countries in the aid-receiving continents. Originally, it was a political term referring to a loosely allied group of nations.²⁷ Later, the term Third World began to be used more commonly, at the time of growth in aid in the early 1960s, and soon it included all the non-European and North American countries; that is, all the countries in Asia, Africa, the Middle East and Latin America (Haq, 1969; White, 1974). Later, with the collapse of the Soviet bloc, the term “Second World” became obsolete and former Second World countries were absorbed into the category of the Third World. By making the definition of the term more loose, the phrase “Third World” came to mean the opposite of the

²⁶ Unlike the definition and category of developed and less-developed countries, Least Development Countries (LDCs) has clear criteria: income level, human development level, and economic vulnerability (United Nations, 2013). A country which satisfies all three criteria is classified as a LDC. The category of LDCs was established in 1971 by the UN and today 48 countries are listed in the LDCs category and 34 countries among them are African countries. 47% of the population in the LDCs still under the poverty line of \$1.25 per day and 89 out of 1,000 children die before their 5th birthday. The LDCs accounted for 1.19% of world total trade in 2011 (UN-OHRLLS, 2013). The list of the LDCs is; Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People’s Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen, and Zambia (UN-OHRLLS, 2011).

²⁷ Third World, *tier monde*, was coined at the height of the Cold War in 1952 by French demographer Alfred Sauvy to refer to a group of countries that claimed to be neither part of the Western world nor the Soviet bloc (even though in reality most of them were part of one or the other in the bi-polar system) (Braveboy-Wagner, 2003, p. 4)

“First World” (Jowitz, 1992). Despite the ever-growing diversity of countries in the Third World, Rapley (2007) highlights that they share the common features of low per-capita income and a low proportion of manufacturing in the national economy and have experienced life as a colony of former imperial powers, except Ethiopia. Despite the calls to use the term “Fourth World”, instead of the faded Third World, to refer to aid-dependent weak states (Moore, 1998),²⁸ the term Third World is still predominantly used, and the false assumption of Third World homogeneity makes the study of recipient foreign policy unattractive academically.

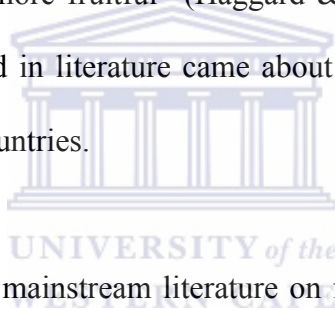
The terms of less-developed, poor, and the Third World are frequently used in economic writings and development studies, but in the literature on foreign policy, the term “dependent” state is more commonly used.²⁹ Even though dependence can include cultural, political and economic dependence, it usually means economic dependence. As the phrase “dependent” states suggests the recipient foreign policy has been treated as a dependent variable which changes along with the changes of independent variables, which are in most cases, foreign policy of donors. As Hey (1995, p. 201) explains, “their (dependent countries’) low status on the global ladder overwhelms other explanatory factors of their foreign policy.” However, some do not agree with the monolithic approach of aid-receiving countries as dependent ones. For instance, Paradakis and Starr (1987, p. 423) argue that foreign policy decisions in small powers with binding

²⁸ Moore (1998) defines three characteristics of the Fourth World as economic underdevelopment, political underdevelopment and high aid-dependence.

²⁹ Scholars agree that “dependence” should be differentiated from “dependency” in dependencia theories (Hey, 1995; Moon, 1985). Dependence means that one country relies on another country at an external level. On the contrary, “dependency” involves both internal and external subordination through international division of labour or internal colonisation.

commonalities of “minimal population, resources, and geographic area” are also contingent on opportunities in international system and leaders in those countries are as willing to take opportunities in that system as leaders in powerful countries.

In the beginning of the 1990s, aid-recipient countries became the focus of a range of policy studies. However this does not mean that the focus of study was shifted from donors to recipient countries. The subject of study was not the domestic political economy of aid recipients *per se*. Rather, domestic factors of recipient countries were treated as merely a precondition to make money and efforts from donors “more fruitful” (Haggard & Kaufman, 1992, p. 9). Grovogui (2003, p. 31) notes that such trend in literature came about “either by benign neglect or sheer intellectual hubris” of the donor countries.



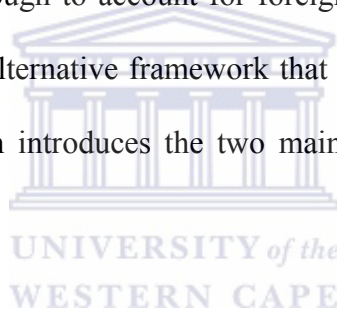
Unlike the *a priori* assumption in mainstream literature on foreign policy, foreign policy of an aid receiving country is neither a pure dependent variable on a donor’s behaviour nor a constant variable in the international system. However, this does not mean that aid recipient countries exert as substantial power or influence as most powerful aid donors. As Vellut (1967) argues, small countries are more sensitive to and serious about foreign policy changes than big and powerful countries. Rosenau (1966) also claims that in foreign policy behaviour, small states are more sensitive to international circumstances than big ones. However, it is also true that some foreign policy makers in some small countries, such as Israel and South Korea, took advantage of their strategic niche and gained bigger leverage than other small countries (Bobrow & Chan, 1988).

In conclusion, according to an old and crude perspective, an aid recipient country is weak, dependent, and under-developed. Recipient foreign policy has been regarded as being shaped by external factors such as the international system or dominating countries. Terms implying inferiority are inclined to relate to material values and can overshadow other values and qualities that aid-recipient countries have (Pearson, 1970). The terms highlighting economic inferiority and ignoring domestic factors of aid-receiving countries have been randomly used without systemic examination in a manner of “I know one when I see it” (Hey, 1995, p. 203). However, contrary to the views of Eurocentric thinkers, aid-receiving countries have economic, political, social and cultural elements that are as complex as those of developed countries. Moreover, developing countries are not homogeneous but have tremendous variety (Baran, 1957).³⁰ Therefore, general patterns among aid-recipient countries are difficult to establish, and thus, no single model can explain aid-recipient foreign policy behaviour. Foreign policy patterns of aid-receiving countries differ as much as those of donor countries. Despite the wide variety, literature on recipient foreign policy lacks theoretical continuity that comprehends the diversity (Hey, 1993). The reason can be found in general perceptions of aid-recipient countries as a dependent variable and domestic politics of recipients as a constant. The root of these perceptions can be found in the long dominating realist perspective in International Relations and in a political economic perspective that sees foreign policy as exchange. As Morgenthau (1962, p. 305) bluntly states, “as there are bums and beggars, so there are bum and beggar nations”, but it seems that the simple concept that the poor always beg has been accepted without serious questioning of *why* they beg and what for.

³⁰ The homogeneity of the Third World which has been assumed by the western theorists is partly responsible for the lack of Third World foreign policy studies.

2.3.2 Submission: The compliance model

The foreign policy of recipient countries has mainly been approached from two conflicting perspectives: compliance and consensus. The compliance school regards the foreign policy of an aid-receiving country to be a consequence of submission to donors. On the other hand, the consensus school argues that it is a subconscious agreement by elites in aid-receiving countries who share the same value system with elites in donor countries. However, the two mainstream explanations are not sufficient enough to account for foreign policy behaviour of aid-receiving countries. Before suggesting an alternative framework that explains aid-seeking foreign policy of recipient countries, this section introduces the two mainstream schools of compliance and consensus.



Dahl (1957, pp. 201-215) famously defined power as “the capacity to get an actor to do that which it would not otherwise do.” In the sphere of international relations or political economy, this Dahlian formulation of power can be rephrased as an influence by nation A to comply nation B to choose a set of foreign policies which nation B would not otherwise do. The asymmetric power relations between donor nations and recipient nations become the basis of a compliance model of recipient foreign policy. For scholars who take foreign policy as “an instrument of exchange” (Richardson & Kegley, 1980, p. 198), foreign aid is “partial payment in exchange for the maintenance of benefits they derive from their economic ties to the dominant country” (Richardson, 1978, p. 64). For scholars who take this position, aid has never been unconditional (Hayter, 1971). Aid is merely “a means to support a government and ensure its obedient

behaviour at the same time” (Payer, 1974, p. 31). This perspective illustrates why studies of foreign policy of aid-recipient countries have been largely ignored in relation to those of aid donors.

In the compliance model, also known as a bargaining model, international asymmetry is assumed. This assumption is based on the understanding of international politics as a continuation of conflicts over allocation of scarce resources (Reiter, 2003). A compliance model depicts international relations as “powerful nations [securing] the cooperation of weaker states chiefly through the use of reward and punishment behaviour” (Moon, 1983). Regarding economic resources, economic aid is a major form of reward while economic sanction is a powerful tool of punishment.³¹ A country suffering from a lack of the money bargains to receive more, and to avoid receiving less. As a result, the country is believed to choose foreign policy complying with what donor nations require.

The assumption behind the compliance model was accepted by scholars and policy makers without systematic examination during the 1960s and 1970s. Policy makers who believed in the possibility of a linkage between aid and a compliant foreign policy of recipient countries tried to use the linkage through manoeuvring aid allocation. The belief is well expressed by Jean Kirkpatrick who was the first UN ambassador of the Reagan regime;

We must communicate that it is not possible to denounce us on Monday, vote against us

³¹ Economic sanctions also have foreign policy objectives. These could be as relatively modest as addressing human rights, or it could be as serious as enforcing surrender of territory as illustrated in the sanctions against the South African Apartheid regime to secure surrender of the control of Namibia. Economic sanctions have been also studied from the frame-work of a compliance model. However, this thesis does not go deeper with the compliance model apropos economic sanctions since this is beyond its scope.

on important issues of principle on Tuesday and Wednesday, and pick up our assurances of support on Thursday and Friday. ... Voting behaviour should be one of the criteria we employ in deciding whether we will provide assistance. (The Washington Post, 1983, p. A14, quoted in Kegley & Hook, 1991)

Based on this belief, the US Congress authorised the president to limit aid to non-compliers in 1986.

However, from the 1980s, scholars began to examine the broadly assumed compliance model on both the empirical and theoretical levels, and reached a general agreement that the correlation between foreign aid and foreign policy compliance is very weak (Rai, 1980; Richardson, 1981; Armstrong, 1981; Moon, 1983; Moon, 1985). In order to examine the plausibility of the compliance model, researchers mainly employed economic aid, military assistance and trade dependence as indicators and compared the correlations based on the degree to which donors and recipients voted identically in the United Nations General Assembly roll-call voting. Kegley and Hook (1991) tested the efficacy of the aid allocating policy of the Reagan administration and pointed out that UN voting coincidence rate was dropped after the adoption of the *quid-pro-quo* strategy. According to their analysis, the aid strategy “vociferously announced” by the UN ambassador from the US in 1986, led to defiance by aid recipients rather than deference.

It is now generally accepted that there are no, or, at best, very feeble links between aid and compliant foreign policy as shown in Kegley and Hook’s findings. Moon (1985) also asserts that any link is dubious both theoretically and empirically. Theoretically, the central assumptions of the model require sufficient flexibility in ‘conditioning tools’ in both aid-giving and receiving

countries. In other words, for the compliance model to work in practice, policy makers of both countries must have enough room to respond to and to re-draft foreign policy. However, such flexibility requires an absence of constraints in internal policy making, which is hardly likely for both countries.³² Empirically, for the model to be cross-sectionally valid, a country which receives more aid should show a higher compliance level. To be longitudinally valid, a recipient should show more compliant foreign policy behaviour during the time when a country receives more aid. However, various empirical tests show the absence of both cases (Moon, 1983).

In addition, UN voting patterns are not sufficient to examine a country's foreign policy behaviours. There are various other foreign policy decisions that are more important than the UN voting pattern. Also, as the Dahlian formation of power suggests, in order to prove "coercion", one needs to prove that the recipient country would not have voted in the same way as its donor unless aid was granted; in practice, this requirement would be difficult to meet. In addition, it is not correct to classify the same voting pattern as being coerced or compliant just because they happen to coincide. If the recipient country makes the decision for what it feels are its own good reasons then this is not an example of coercion by external powers. A seemingly simple voting pattern contains many and complicated deciding factors and so any examination of what influences foreign policy requires complex and multi-dimensional approaches.

³² Even though it is generally accepted that decision makers in aid-receiving countries face less severe constraints in policy making than those in aid-giving countries with established bureaucratic structures, varied opposition political parties and active participation of civil societies, they also are not free from internal constraints in policy making. However, asserting that policy influence is not reliant on democratic processes, Moon (1985, p.304) adds that "leaders in Third World must spend more, not less, of their time and resources trying to remain in power; the constraints they face are in some way more severe than those in stable constitutional democracies" given coalition maintenance and ever-present potential coups.

Nevertheless, withdrawing foreign aid is often used by the international donor community to punish recipient countries engaged in wars or committing crimes against humanity. In 2012, when the United Nations became aware of the Rwandan government's backing of the military rebel group M23 in the Democratic Republic Congo, most international donor countries including the US, Germany, the UK, and the Netherlands instantly froze their foreign aid to Rwanda.³³ Even though recipient countries vehemently see this manoeuvring of aid-giving as a “child-to-parent relationship” in the words of Rwandan Foreign Minister (Miriri, 2012), it seems that aid donors still like to use, or like to think of, aid as a stick for correcting the misbehaving aid-recipients.



2.3.3 Consensus: Voluntary agreement between elites

In contrast to the compliance model, the consensus model finds the cause of dependent foreign policy in collaboration between foreign policy makers in recipients and donor countries. The consensus model borrows its frame of analysis from dependency theory. As in the compliance model, dependency theory also assumes “relational asymmetry” between nations (Duvall, 1978, p. 51). However, instead of looking at a state as a unit of analysis, dependency theory looks into the state and finds classes resulting in international structural dependency. According to Cardoso and Faletto (1979, p. 140),

There is no such thing as a metaphysical relation of dependency between one nation and

³³ The affected amount of aid from the US, German, the UK, and the Netherlands was \$0.2 million, €21 million, €16 million, and €5 million, respectively.

another, one state and another. Such relations are made concrete possibilities through the existence of a network of interests and interactions which link certain social groups to other social groups, certain classes to other classes.

In the same vein, Wallerstein's (1974) world system theory divides states into core, semi-periphery and periphery, but more importantly he stresses that each state has its own core class which manipulates state policies for its own economic benefit. Galtung (1971), one of the founders of the dependency theory, explains that the world consists of the Centre (dominating countries) and the Periphery (dominated countries), and each part of the world has its own centre (dominating class) and periphery (dominated class). Certain international political economic phenomena such as conflicts or cooperation are not between states but between classes in different states. Taking imperialism as an example, it was the "joint benefit" of the centres both in the Centre and the Periphery (Galtung, 1971, p.81).³⁴ The special link between the centre classes generates deep reaching structural distortions in a dependent country, since the centre in the Periphery shares common interests and perceptions with the centre in the Centre more than it does with the periphery in the Periphery.

Foreign policy scholars adopted this framework into the consensus model to explain the foreign policy of aid-receiving countries. According to Moon (1983; 1985), who pioneered the application of this dependency/dependencia model to foreign policy behaviour of dependent countries, the elites or foreign policy decision makers in a dependent country share values,

³⁴ Galtung asserts that this perspective should be differentiated from that of Marxist-Leninism. Dependency theorists look at "structural relationship" produced by two collectivities-the centres in the Centre and the Periphery. However, to Marx-Leninists, imperialism is an "economic relationship" which was brought about from the greed of capitalists wanting to expand their market, i.e. from the centre to the periphery (p.81).

perceptions, and interests with the elites in the donor country, where they were often educated, send their children to, have bank accounts in, and receive news from. They have more in common with those donor elites than with the masses in their own aid-receiving nation. Thus, the elites in a dependent country come to favour foreign policy directions in accordance with the foreign policy of a donating country for this is beneficial for them and they share a similar value system. This process is free from coercion, but, from the perspective of the consensus model, produces insidious dependency.

Even though the compliance model and consensus model are the two main approaches concerning dependent foreign policy, these are insufficient to explain various patterns of foreign policy in aid-receiving countries. Hay (1993, p.551) points out that an attempt to generalize dependent foreign policy behaviour within these two frameworks is not only incorrect but also “condescending”. Both models share the same assumption that the most decisive, if not the only, driving factor of recipient foreign policy is the simple fact of being dependent. However, if dependency is the decisive factor guiding the directions of dependent foreign policy, then foreign policy among the aid-receiving countries would be expected to show a common pattern; however, this is not the case. Also, elites are not homogeneous and have differing interests; thus, one cannot simply assume that dependent foreign policy purely represents the interests or value system of the elites (Evans, 1979). Furthermore, a large part of the dependent foreign policy is not aligned with the foreign policy of the aid-giving country; this discrepancy cannot be explained by either the compliance model or the consensus model. Foreign policy of aid-receiving countries simply does not always accord with that of donor countries. Elites in recipient countries sometimes deliberately choose an opposing foreign policy for their own

survival in local politics and in order to appease their public who are frustrated by their country's dependent situation or to offset the consequences of economic dependence. Hey (1993, pp.549-551) categorizes these two different types of foreign policy divergence as i) counterdependence and ii) compensation. Counterdependence indicates anti-core foreign policy making in dependent countries which intends to demonstrate frustration among core-unfriendly policy makers and to offset the consequences of economic dependence. Compensation is in line with counterdependence as it also refers to anti-core foreign policy, but it differs because policy makers reluctantly choose to go against a dominating country to please the domestic public even though they themselves are core-friendly. Moreover, some foreign policy decisions fall outside any considerations of economic dependence or the relations with dominating nations. In many cases, a political leader's personal style or world view, the dynamics of domestic interest groups and a nation's historical development play more dominant roles in foreign policy making than the simple fact of being an aid recipient.

2.4 Mercantilist aid-directed foreign policy

The two views of compliance and consensus do not sufficiently explain foreign policy of aid-receiving countries. There still is a gap in studies on a recipient's foreign policy, such as when to seek foreign aid, reasons for inclining toward a specific donor, and how and where to use aid. These decisions are affected by domestic factors as well as international constraints or opportunities. The bargaining power of aid receiving countries grows even bigger when they deal with aid issues than when they discuss other international affairs in general. Indeed,

according to White (1974), recipient countries play a decisive role in many foreign aid policy decisions. Easterly (2001, p.117) also notes that “surprisingly enough, the impoverished recipients are in the driver’s seat during negotiations over disbursement of aid loans”; after all, international donors or lenders are not usually eager to declare the failure of their disbursement as this might cause embarrassment. Both parties are aware of the situation and so, a recipient’s demand for more loans or aid has more leverage than often acknowledged. Today, especially with emergences of alternative less traditional donors, such as China and India, in the international political economy, the leverage of recipients at the aid negotiation table is even greater than before (Frynas, 2007, p. 250). Therefore, the study of foreign policy of aid-recipients or Global South requires novel analytical tools that incorporate elements of colonial and post-colonial history, International Political Economy and International Relations as well as traditional approaches to foreign policy analysis. Thus, the thesis introduces mercantilism as an alternative view to examine aid-seeking foreign policy of recipient countries.

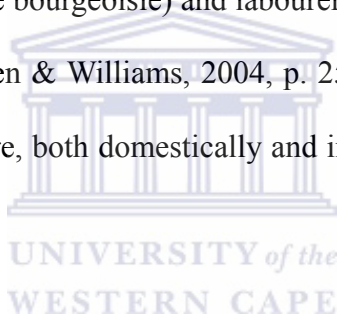
As noted in Chapter one, mercantilism in the thesis is approached from dual dimensions; first, it is a practice of foreign policy behaviour that a state seeks wealth as a primary means to secure its survival; and second, it is rationality that elites adopt in search of the wealth and power of their own. Much of the literature uses the former approach in understanding mercantilism. However, in literature on mercantilism, the definitions and ranges of application do not always accord. In fact, the meaning of mercantilism “turned some sharp corners” and in the course lost the continuity of interpretation, the application of mercantilism became too broad to mean anything in particular (Wilson, 1957, p. 181). For instance, mercantilism in economics means trade supremacy in the national economy, while mercantilism in Marxism or in neo-Marxism refers to

“the ideology of the monopoly trading companies” (Coleman, 1980, p. 780). In current international politics, the US government often uses the term “mercantilist policy” to criticize China’s approach to Africa’s oil supplies (Luo, 2013, p. 55). However, these definitions of mercantilism are based on a “political caricature” rather than analytical categorisation (Sautman & Yan, 2006. p.64).

This section of the thesis reviews the development of mercantilism which becomes a framework explaining state behaviour and, at the same time, rationale of elites’ decision in the thesis. In political economy, mercantilism refers to the supremacy of the state over the economy. According to Schmoller, mercantilism is the synonym of “state-making” (Gray, 1931, p. 69). Even though there might be slight differences in the definition of mercantilism depending on the sub-schools: classical mercantilism, economic nationalism, the German Historical School, statism, and neo-protectionism, the common and absolute feature in mercantilism is a strong state (Gilpin, 1987; O’Brien & William, 2010). According to Viner (1958, p.286), mercantilism, regardless of the time and place, has the following propositions: (1) wealth is an absolutely essential means to power, whether for security or for aggression; (2) power is essential or valuable as a means to the acquisition or retention of wealth; (3) wealth and power are both proper ultimate ends of national policy; and (4) there is long-term harmony between these ends, although in some circumstances it might be necessary for a time to make economic sacrifices in the interests of military security and long-term prosperity.

Mercantilism is fundamentally different from two other main principles in political economy: economic liberalism and economic socialism/structuralism. Economic liberals base their

theory on the Ricardian assumption that free trade maximizes comparative advantages and the mutual benefits of participants. For liberalists, the market is the most efficient mechanism for the well-being of rational individuals. The less government influence, the closer the state progress to utopia since economic liberalism is based on the assumption that “economics is progressive and politics is retrogressive” (Gilpin & Gilpin, 1987). In contrast, economic socialists/structuralists argue that the relative gains which economic liberalists take as grounds for cooperation are the very source of conflict. In structuralism, class is a unit of analysis, and society and the world should be regarded “in relation to the structure of production which creates owners of means of production (the bourgeoisie) and labourers who sell their labour power to the bourgeoisie (the workers)” (O’Brien & Williams, 2004, p. 25). Thus, the working class should break their connection with the core, both domestically and internationally, in order to free itself from structural exploitation.



In contrast to structuralism, even though the thesis looks at the dual levels of state and elite in explaining mercantilism, in most mercantilism literature the unit of analysis is the state. Also, in contrast to the economic liberalist view that the state exists for the market, mercantilists argue that the market exists for the state. Early mercantilists between the 15th to 18th century in Europe considered the power of the state as “the sole or overwhelming preponderant end of foreign policy” and they valued wealth as “a necessary means” to attaining power (Viner, 1958, p. 277),³⁵ while later mercantilists take a more eclectic position than the pioneers. According to Heckscher (1935), power is not the only end in mercantilism: wealth can also be an end.

³⁵ This orthodox form of mercantilism in the nineteenth century can be read from German scholars such as Schmoller (1898) or English historians such as William Cunningham (1903).

Moreover, power can even be the means to obtaining more national wealth. Today, it seems that mercantilism is still most preferred state practices as a British diplomat confesses that the interests of diplomats “typically, and by inherited tradition, take the form of a hierarchy of priorities where security—the requirement to secure the state and its population—ranks at the top, followed by economic interests” (Ross, 2011, p. 141). With this background, the rest of this section overviews the historical development of mercantilism from the original emergence of mercantilism: classical mercantilism, industrial mercantilism, and neo-mercantilism.

2.4.1 Classical mercantilism

Classical mercantilism or *financial mercantilism* refers to a belief that “it is always better to sell goods to others than to buy goods from others, for the former brings a certain advantage and the latter inevitable damage” (Johann Becher, quoted in Galbraith, 1987, p. 39). This was the dominating idea during the classical mercantilist era. Even though there have been many debates on the historical timetable of mercantilism,³⁶ it is generally agreed that mercantilism emerged between the decline of feudalism and the emergence of the Industrial Revolution in Europe in 1780 (Canterbery, 2001). During this time, nation-states began to form, and their main concern was ensuring their security and power. Thus, merchants (the term mercantilism has its etymology in the Italian word for merchant) were expected to collect as much gold as possible in

³⁶ The economic historian, D.C. Coleman (1980, p. 780) finds the emergence of merchant capitalists “exercising sway over government” responsible for the emergence of mercantilism. According to his timetable, mercantilism in England emerged in 1713, whereas in Western Europe it emerged at various times after the demise of the feudal economy.

order for the government to secure military capacity needed for war, to produce or buy weapons and soldiers. During this period, war was a major source of expenditure in the public budget (Galbraith, 1987). Mercantilism also refers to “a period of history when newly emerging nation-states faced problems of security” (Balaam & Veseth, 2005, p. 29). Even though there were disparities in the economic policies of European countries, the underlying idea was the same: the government controlled the economy for the sake of the survival of a nation.

The policies of classical mercantilism included promoting production, exporting domestic goods, limiting domestic consumption of exportable goods, and placing tariffs on imported goods to create a favourable balance of payments. It sought maximising exports while minimising imports, thus precious metals such as gold and silver could be earned and retained. Newly established nation states needed money to expand military force to ensure their security and independence. However, gold, the currency of the day, was scarce except in Spain which was enjoying a surfeit of gold from Latin America.

2.4.2 Industrial mercantilism

The first wave of mercantilism died out at the start of the Industrial Revolution; a new type of mercantilism emerged with the Industrial Revolution. As the economy of Britain grew bigger and more powerful, other nations such as the US and Germany felt threatened by the expanding economic liberalism of Britain and began to adopt new mercantilist policies. This time the focus of policies was not obtaining more gold. It was on achieving internal development of the national economy through ‘manufacturing’. Those countries looked for the key to their survival

in industrialisation of the domestic economy. This new generation of mercantilism in the late eighteenth and nineteenth century is known as *industrial mercantilism* or *economic nationalism*. The two most famous proponents of this school were Alexander Hamilton and Friedrich List. Hamilton's *Report on Manufactures* showed the priority given to manufacturing over commerce:

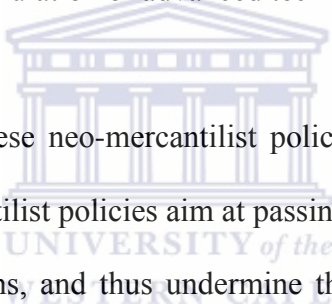
It must be less in a nation of mere cultivators, than in a nation of cultivators and merchants; less in a nation of cultivators and merchants, than in a nation of cultivators, artificers and merchants (Hamilton, 1791).

Hamilton's argument was based on Lockean political philosophy of the political virtue of acquisition; thus, wealth was the common good and welfare of a nation was plausible through manufacturing and some government intervention (Frisch, 1991, pp. 41-52). Industrial mercantilism includes state support for infant industries and sacrifices for the national interest and future gain, both of which have their advantages and disadvantages. Industrial mercantilism seemed to focus on economic growth rather than hostility towards other countries; nevertheless, it was argued that to some extent, over-production beyond the absorbable level of domestic markets and over-competition among the mercantilist countries were responsible for the subsequent imperialism and two World Wars.

2.4.3 Neo-mercantilism

The criticism that mercantilist competition brought about much human sufferings and the economic damage of the World Wars led to the creation of international institutions for deeper international economic integration: the General Agreement on Tariffs and Trade (GATT) and the World Trade Organisation (WTO). Explicit and overt mercantilist policies such as manipulation

of tariffs and quotas were banned by the new institutions. Due to the international atmosphere and the regulations imposed on each country, the views of economic liberals seemed to be accepted; free trade stops wars by increasing inter-dependency among states and benefits people through win-win economic gains. However, international norms and local interest groups with increasing voice are not always aligned. Thus, states started to craft new policies that seemed less like the hostile classical mercantilist. The new set of policies is known as neo-mercantilism and takes many forms such as “the desire for a balance-of-payments surplus; the export of unemployment, inflation, or both; the imposition of import and/or export controls; the expansion of world market shares; and the stimulation of advanced technology” (Gilpin, 1975, p. 46).



Economic liberalists argue that these neo-mercantilist policies are as harmful as those of the classical mercantilist. Neo-mercantilist policies aim at passing onto other countries the costs of a state’s domestic social interventions, and thus undermine the interests of other countries. For instance, the cost of boosting local agricultural industry in the US and the European Union (EU) passes on costs to the farmers in developing countries. For economic liberalists, neo-mercantilism is still a “profoundly disruptive force in international relations” (Malmgren, 1971, p. 119).

In contrast to the economic liberalists’ perspective, the proponents of neo-mercantilism claim that there is not proof that mercantilism causes wars between nations. Buzan (1984, p. p.610) explains that even though some degree of economic inefficiency and territorialism is unavoidable in mercantilism, there is no evidence that neo-mercantilist protectionism for self-reliance leads to politically aggressive policies. Scholars favouring neo-mercantilism argue that any

misunderstandings of neo-mercantilism stem from an inability to distinguish benign and malevolent mercantilism. According to (Gilpin, 1987, pp. 31-34) who first drew the distinction between the two mercantilisms, both entail a form of protectionism but benign mercantilism entail the consideration of economic welfare and political stability at a local level. It contrasts to malevolent mercantilism which aims at enlarging state power by decreasing the power of others, as in the Nazi economic expansion toward eastern Europe in the 1930s. However, it should be noted that both can have the same form and the main difference is the matter of the motive behind the policies.



2.5 Conclusion

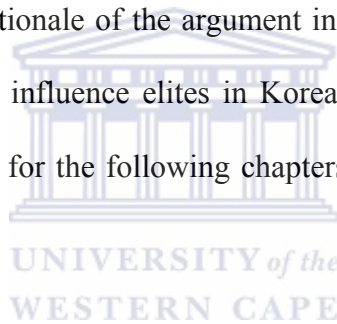
This chapter's focus was aid-seeking foreign policy of recipient countries. As background, the chapter began with a brief overview of literature on foreign aid. Mainstream foreign aid literature in International Relations has been dealing with foreign aid from a donor-oriented perspective. For instance, the intention of aid giving has seen the relatively systematic development of theories, such as military gain, commercial benefits and altruism. On the other hand, foreign policy of recipient countries or reasons for aid-seeking has rarely been addressed. Even though there are two main views, submission and consensus, that have been applied to explain aid-recipient foreign policy, these approaches do not fully elucidate aid-seeking foreign policy of recipient states. Thus, the thesis suggested mercantilism as an alternative tool to explain recipients' foreign aid policy. Mercantilism takes wealth and power as two ultimate goals of a state for the survival of a state. When mercantilism is applied to an aid-seeking state,

therefore, it can be translated as a state seeking foreign aid because otherwise the state would be less likely to politically survive. However, this thesis sees another layer of mercantilism: elite's perspectives to mercantilism. A state seeks foreign aid because otherwise the elite think they would be less likely to politically survive, and thus they use the practice and rationale of mercantilism for their own survival. To understand, the elite aspect of mercantilism, the next chapter investigates 'the elite' and its relationship to aid and especially aid independence.



Chapter 3 Elites in aid-recipient states

Elites matter in aid independence and aid dependence. More precisely, what elites think of foreign aid matters in aid (in)dependence. The thesis researches the elite perspective on foreign aid through the event of foreign policy change towards foreign aid and examines the consequences. In the previous chapter, the literature on foreign aid policy was reviewed. Based on that background, this chapter examines the role of elites in foreign aid policy and especially in aid (in)dependence. This chapter begins with a brief overview of elite literature. Then, it examines the role of elites in foreign policy making and aid independence, and in that sense this part of the chapter becomes the rationale of the argument in the thesis. The subsequent part of the chapter investigates ideas that influence elites in Korea in the 1960s and in Ghana in the 1980s; thus providing background for the following chapters that deal with the case studies on Korea and Ghana.



3.1 A brief review of the classics in elite studies

The term elite came from the Latin *eligere*, which means ‘to elect’ (Brezis & Temin, 2008, p. 1). *Élite*, as a word, was first used in the seventeenth century to refer to commodities of excellence, and the usage was later extended to social groups with superiority (Bottomore, 1964, p. 7). During the time of the normative elitism of Plato, elite rule was taken for granted, and thus, for a long time it was not a subject of analytical examination. It was in the late nineteenth and the early twentieth century when the elite became a subject of political analysis thanks to the seminal works of scholars in the Italian school. According to Vilfredo Pareto (1935) and Gaetano Mosca

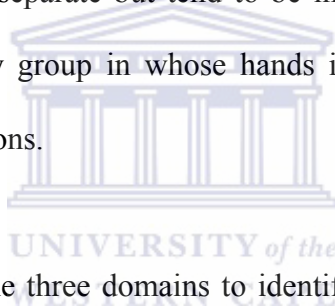
(1939) who are “the classical founders of the notion of the elite” (Jones, 1970, p. 103)³⁷. it is inevitable for any population to fall into two strata and the influence and power of the minority group at the top is bigger, stronger and more important. Mosca (1939, p. 50) asserts that throughout the political history of mankind, every political organisation has shown the obvious phenomenon of the co-existence of two classes: “a class that rules and a class that is ruled.” The emergence of a ruling class is as natural as that of a political society and a small ruling class has the merit of simply being small: they are more efficient in communicating. Every political organism has one individual at the top and that person needs an organised minority to control the unorganised masses.

Instead of Mosca’s ruling class, Pareto uses the term “elite”. Pareto’s elite includes a range of people wider than Mosca’s. Pareto’s elite is subdivided into two: non-governing elite and governing elite. The latter overlaps with Mosca’s political ruling class and the former is insignificant in politics. Both Mosca and Pareto view human history as a continuous repetition of the two classes. The minority shares real and/or symbolic merits or influence and these common attributes separate them from the majority. What has changed is only the appearance of the ruling minority elite group. In primitive society, warriors were the minority elite. In a hereditary society, birth is the criterion to define a member of ruling class, and in a society where a religion has great influence, religious leaders share the attributes and economic and political merits of a ruling class. As civilisation progressed, the main attribute of the ruling classes

³⁷ Parry (1969, pp. 30-63) includes Michels in a list of classic writers in elitist thought along with Pareto and Mosca. According to Parry, Michels was a disciple of Mosca and shared with him a similar organisational approach in studying the elite which differed from Pareto’s psychological approach. Therefore, this part of the thesis does not include Michels’ work in depth.

transformed from being brave to being rich.

The classical elitism of the Italian school is succeeded by Mills (1956) who pioneers modern elitism. However, unlike classic elitists who describe the elite as great men or as men who achieved success, Mills finds the cause of the division between the ruling class and the ruled in the political and economic structure. According to Mills (1956, p. 3), elites, whose decisions “mightily affect the everyday worlds of ordinary men and women”, occupy high hierarchies of three major institutions: governments, corporations, and the army. The leading men in high positions of each domain are not separate but tend to be interlocking resulting in forming the ‘power elite’, a cohesive minority group in whose hands is concentrated the power to make national decisions through institutions.



Since Mills’ work of looking at the three domains to identify elites, the attempts to clarify the definition of elite more precisely and, at the same time, subdivide the ruling class have been continued by thinkers such as Putnam (1976) and Dahrendorf (1979). Putnam (1976, pp. 3-4), who develops Mills’ modern elitism in the 1970s, refers to the common arguments shared in the three classic text on elite scholarship: *The Ruling Class* of Mosca (1939), *The Mind and Society* of Pareto (1935), and *Political Parties* of Michels (1962) who was a student of Mosca. The arguments are as follows: “(1) political power, like other social goods, is distributed unequally; (2) essentially, people fall into only two groups - those who have significant political power and those who have none; (3) the elite is internally homogeneous, unified, and self-conscious; (4) the elite is largely self-perpetuating and is drawn from a very exclusive segment of society, and; (5) the elite is essentially autonomous.” According to Putnam’s analysis, classic elitist thinkers

share the basic assumption that a society inevitably has the elite that rule, in contrast to the masses who are ruled. Moreover, the elite share important similarities that bind them together and differentiate them from the masses. Putnam (1976, pp.115-121) divided the elites in three brackets based on their attitudes: consensual, competitive, and coalescent. In a similar attempt, Dahrendorf (1979, pp. 229-231), in a study of the German elite, lists four different types: authoritarian, totalitarian, liberal, and cartel elite based on their social position and political attitudes.³⁸ However, he also suggests the power elite in Germany as one unit of “a set of perhaps two or three thousand men (for there are few women among them), which, while it is stratified considerably within itself—nowhere is the drop of power as steep as its peaks—represents as a whole what may be called the German power elite” (p. 219).

Later, Field and Higley (1980) and Field and Higley (2001) revive and extend the modern elitism studies and establish a new elite paradigm which distinguishes between unified elite and dis-unified elite. That new elite paradigm suggests that unified elite are essential for institutional stability. The unified elite contribute to a successful and representative democratic government by creating political stability. On the other hand, disunity within elite results in political instability (Field & Higley, 1980). According to Burton and Higley (2001, p.8 & p.82), who defined elite as “persons who are able, by virtue of their authoritative positions in powerful organisations and movements of whatever kind, to affect national political outcomes regularly and substantially”, the transformation of political elites becomes “the fulcrum for fundamental

³⁸ High coherent social position with uniform political attitudes produces authoritarian elite, while low coherent social position with uniform political attitudes produces totalitarian elite. Liberal elite are the result of high coherent social position with multiform political attitudes (Dahrendorf, 1979, pp. 229-231).

policy change”.

Throughout the history of its study, the term “elite” was value-loaded. When the study of elite began, Pareto noted that the masses had zero political power in contrast to the governing political elites. Studies placed great emphasis on social, political and economic inequality (Mills, 1956; Zeitlin, 1989; Useem, 1984). Today’s political system allows the masses more power to influence and participate in decision-making. However, elections can only determine which particular elite rules but the fact that power is in the hand of the elite, instead of the people in general, does not alter. No matter what the political system is power and resources are always unequally allocated in favour of the elite. The elite are well informed and have direct power to make decisions. In most cases, the general public is excluded from national secrets in the name of the national interest, or is even punished for accessing or spreading the information.³⁹ The most critical information is only for the elite. The elite have an almost exclusive access to such information and can make decisions based on that information. With the exclusive information, the elite exert absolute power and influence in foreign policy making and economic growth. In what follows, the thesis looks at elite-focused approaches in explaining foreign policy and economic growth as well as opposing views.

³⁹ The cases of Edward Snowden and Bradley Manning are good examples of the exclusivity of national information and the consequences of its violation. Snowden, a former computer specialist in the Central Intelligence Agency (CIA) in the US, fled from his home country and sought asylum in Russia for disclosing government secrets on mass surveillance in 2013. The same year Manning, a former US soldier, was sentenced for 35 years for leaking restricted documents including a video clip of the 2007 Baghdad Airstrike.

3.2 Why Elites?

3.2.1 Elites in foreign policy

The answer to the question of who makes foreign policy varies depending on schools in International Relations. This section first briefly introduces the two main views in International Relations regarding the issues: realism and pluralism. A realist school argues that an external threat to the existence of a state is the most important agent of foreign policy change. Even though Waltz (1996, p. 54) asserted famously that “international politics is not foreign policy”, the two realist approaches of balance of power and balance of threat, help to explain a state’s change in foreign policy. However, there are different sub-schools of realism with different diagnoses. For offensive realists, foreign policy activities are “the record of nervous states jockeying for position within the framework of a given systemic power configuration.” In contrast, defensive realists see foreign policy as “the record of rational states reacting to clear system incentives” (Rose, 1998, p. 150). Nonetheless, the common ground within the school of realism is that pressure from the international system is the real agent of foreign policy change; states are the sole actors and foreign policy changes take place when a state responds to external threats or incentives (Wohlforth, 2008).

One should acknowledge that realists focus on conflicts between states and their system-level analyses have helped to understand broad historical trends of wars. However, no war is explainable “without direct reference to the decision making of individual leaders” (Renshon & Renshon, 2008, p. 511). In addition, if external pressure is the most critical factor that shapes foreign policy, most less-influential countries should show a similar pattern in foreign policy, which is far from what is observed in practice. A country reacts differently under similar

external pressure. In other words, the international system is not decisive or sufficient enough to affect the foreign policies of individual countries. Rather, along with different domestic environments, different dynamics in elite groups render diverse foreign policy under similar international pressure. What realists see is foreign policy made and carried out in the name of and on behalf of the state. It is elite who make and execute the foreign policy.

Pluralism does not agree with the realists' account either. According to the pluralist idea, there is no system or no single powerful stratum that decisively affects decision-making. Instead, several agents in society drive foreign policy. They see foreign policy as “the culmination of inputs from various units in society” involving nongovernmental and societal actors (Akokpari, 2005, p. 183). Collective action of interest groups or lobbyists is regarded as having an influence on policies in general, including foreign policy (Olson & Olson, 1965, pp.135-164). Allison (1971) who pioneered a systematic pluralist approach explains that participating agents range from the rational calculations of government leaders and organisations to bureaucratic politics. Rose (1998) places more emphasis on the domestic dimension of the plural agents and gives them the name of *innenpolitik* which encompasses agents from internal politics and economic ideology to partisan politics.

Among those multiple actors, the mass media is often regarded as one of the most influential actors. Those who are holding high positions in this industry are also regarded as non-ruling elites (Brezis & Temin, 2008, p. 1). Their influence has been called “the CNN effect”, coined by Eachs and Livingston (1995, p.413), meaning “elite decision makers' loss of policy control to news media.” Referring to media coverage of the US intervention in Somalia in 1992, Eachs and

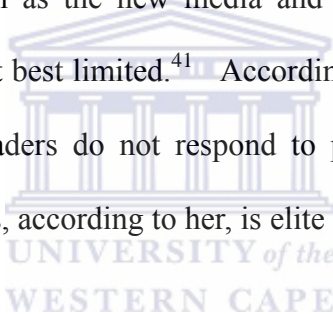
Livingston (1995) argue that the eventual foreign policy decisions were a result of not just diplomatic and bureaucratic operations but also news coverage in the mass media. It is generally acknowledged that news coverage on global real-time television in the early 1990s, showing the suffering in Iraq and Somalia, prompted US interventions (Robinson, 2002, pp.7-9). The rapid speed of technological advance is also credited for the so-called Arab Spring which began in 2010. The advanced information technology of videophones and wireless telephony has the ordinary person participating in a new form of journalism, which is known as “the CNN effect plus” (Livingston, 2003). According to the pro-media schools, the evolution of information technology and increase in public participation has placed the media and public in the position of agenda setters and therefore foreign policy officials need to be in a reactive position.

However, the extent to which the media influence foreign policy making is ambiguous.⁴⁰ The “CNN effects” work only in limited areas of foreign policy. Missiles and dying babies can make good pictures but multi-lateral trade negotiations do not. The foreign policy area is very broad and includes politics, economics, environment, multi-lateral cooperation, cross-border management, and the like, but CNN has a powerful effect in only a few emotive areas. In addition, Bennett (1990, pp.116-121) argues that the reverse is true. It is not the media which set the foreign policy agenda; the government and state elite use the media to spread their agenda. He argues that government officials draw the lines initially and the media follow them. In *Manufacturing Consent*, Hermann and Chomsky (1988) assert that the media follow the lead of

⁴⁰ The media is a target of strong lobby groups as are policy makers. Thus, foreign policy makers and the media are under the influence of the same lobby groups, and it cannot always be said that media coverage influences a foreign policy agenda.

government and are being used as a means of propaganda.

In sum, the pluralistic approach is not sufficient to explain foreign policy behaviour despite the fact that it adds some insights to the simplistic realist explanation of foreign policy. Even though various factors in domestic, international and cultural levels can influence foreign policy decisions, as Hermann (2001, p. 47) points out, those influences are “necessarily channelled through the political apparatus of government that identifies, decides and implements foreign policy.” Even though a number of pluralists make attempts to measure the impact of public opinion and non-ruling elites such as the new media and academics (Powlick, 1995; Kreps, 2010), their role and influence is at best limited.⁴¹ According to Kreps (2010) study on NATO-led operations in Afghanistan, leaders do not respond to public unpopularity. Rather, what determines foreign policy decisions, according to her, is elite consensus.



In that sense, a seemingly pluralist system of foreign policy making is an illusion.⁴² Even though foreign policy making in most democratic system takes a form of inclusive policy-making through public hearings and complex administrative procedures, this does not mean that those are all taken into consideration in foreign policy decision making. In reality, the “black box” is

⁴¹ Powlick (1995) examines the communication between foreign policy officials and the public and finds out that different public groups have different levels of communication with government. The communication level of foreign policy by government with both the news media and elected officials was high whilst that with non-governing elites such as academics and interest groups was low.

⁴² Putnam (1976, pp. 6-7) distinguishes direct influence, indirect influence and spurious influence in deciding policy. Direct influence refers to actor A being one of the participants in the final policy decision process. Indirect influence means that actor A influences actor B who directly decides policy. Spurious influence takes place when actor B directly influences policy and at the same time the standpoint of actor A. Even though it seems as if actor A influences policy due to the simultaneous change, it is only a coincidence and not the result of actor A's influence. Putnam argues that elites study should include direct and indirect influence but exclude spurious influence.

only accessible to a few, “small minorities who appear to play an exceptionally influential part in political and social affairs”, i.e. elites (Parry, 1969, p. 13). The range of elite who are engaged with foreign policy making is even smaller than that of political elite in general. As noted above, Mills (1956, p. 5) called them the “power elite”, referring to a higher circle of decision makers who rank above professional politicians. Even though there are other theorists such as Lowi (1967, quoted in Zimmerman, 1973) who believe that elites involved in the foreign policy process are even smaller than the power elite, the fundamental belief of elitism is common: foreign policy is a process regulated and distributed by “a polyarchy of elites” (Zimmerman, 1973, p. 1211). Later, Hermann and Hermann (1989) refer to the foreign policy elites as the “ultimate decision units”, which Hermann (2001) later renames “authoritative decision units.” Usually, the presence of elites in foreign policy, a leader and his/her close advisors, are exposed in the time of national crisis. When the US decided the drop nuclear bombs on Japan in World War II, the decision was made by a small number in the elite group despite objection from the US Congress. The Cuban missile crisis was another example that disclosed the power elite of American foreign policy making in the Kennedy administration. The entourage of Kennedy led the foreign policy crisis with discretion over legitimate institutions (Allison, 1971).

Foreign policy elites are comprised of two different groups: foreign policy officials and the political leader. Literature on the role of the elite in foreign policy making is also mainly divided into two. The first group of literature focuses more on the decision making process of foreign policy officials. After Snyder, Bruck and Sapin (1962) proposed foreign policy decision-making as a new perspective in studying foreign policy, decision-makers and their subjective interpretations of the world became more important than objective reality of the world in

understanding state behaviour (Kuperman, 2006, p. 537). The study of elites' interpretation soon became complemented with studies on decision-making processes such as bureaucratic politics and formal and collegial policy groups (George, 1980).

On the other hand, presidential studies pay more attention to a leader at the top instead of decision-makers or their decision-making processes. As Mosca (1939, p. 51) famously wrote, all political organisations consist of two classes: the class that rules and the class that is ruled, and there is a "chief" at the top of the ruling classes who he identifies as,

At times, alongside of the hereditary king or emperor there is a prime minister or major-domo who wields an actual power that is greater than the sovereign's. At other times, in place of the elected president the influential politician who has procured the president's election will govern. Under special circumstances there may be, instead of a single person, two or three who discharge the functions of supreme control (p.51).

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Even though most presidential literature treats each president as unique from other presidents and therefore does not allow for theoretical generalisation (Mitchell, 2005, p. 182), in most cases it is common that the role of a leader at the top is decisive in foreign policy making.

As an attempt to converge those two areas, Herman and others (2001, p. 83) investigate the cases when the decision unit of foreign policy making is a single individual leader, which they name "a predominant leader." They identify eight different leadership styles based on responsiveness to constraints and openness to information which lead to different foreign policy outcomes.⁴³ As they illustrate, monarchs and authoritarian leaders are illustrations of predominant leaders

⁴³ The eight types of leadership are as follows: expansionistic, evangelistic, incremental, charismatic, directive, consultative, reactive and accommodative (Hermann, et al., 2001, pp. 94-100).

(Hermann, et al., 2001, pp. 83-84). Prominent leaders are more likely to appear in a newly independent country, where institutions are yet to develop and the state is going through transition (Mintz & DeRouen Jr., 2010). Considering the outcome of these researches, the role of two authoritarian leaders in newly independent countries, namely Park Chung-hee in Korea in 1960s and Rawlings in the 1980s, was critically decisive in the foreign policy making of those countries.

3.2.2 Elite, aid dependence and development

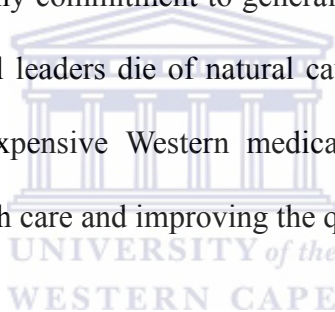
Foreign policy decision making is not the only area that elites play a decisive role in. Aid independence cannot be achieved without a proper role of elites either. Of course, it is hard to isolate the main causes for perpetual aid dependence since aid dependence is the outcome of endogenous and exogenous, as well as natural and man-made factors. However, among the various factors, elites hold a special position because of the criticality of its role both in aid independence or perpetual aid dependence. Bottomore (1964, p. 99) notes that despite distinctive features and problems that each underdeveloped country is facing, there are many important and common characteristics that they share. One of the common features is that the political elite in those countries are “pre-eminent in deciding the course of their development.”⁴⁴ The elite play a decisive role in both aid independence and aid dependence. Nevertheless, literature on the elite has not examined their role as a key element of the economic development process (DiCaprio, 2012, p. 1). In what follows, the role of elite in aid dependence is introduced.

⁴⁴ Bottomore classifies the elite in developing countries as either nationalist leaders, revolutionary intellectuals or military officers.

However, instead of focusing narrowly on literature on aid dependence or aid independence, this section includes literature on economic growth and poverty since there is only a thin range of literature regarding aid dependence. In addition, in much contemporary literature, the term aid independence can be replaced with economic growth in the given context, and the term aid dependence is used synonymously with poverty or economic backwardness.

Elites, in more literature on economic growth, are part of the problem rather than the part of solution. In the 1970s, aid theorists and practitioners began to discuss the failure of the illusionary trickle-down effect, and they began to think that the elite kept the benefit of foreign aid unfairly instead of distributing it (Thérien, 2002). Or more fundamentally, elites can stunt economic growth by blocking the introduction of new technologies or economic change. According to a political-loser hypothesis by Acemoglu and Robinson (2000, pp. 126-127), when adoption of new technologies is perceived as a threat to political power of the ruling elite, the elite block the adoption. Acemoglu and Robinson (2006) later developed their hypothesis and introduced a “political replacement effect” theory which explains why some countries adopt policies that cause economic backwardness and find the answer in the idea that elites hold. All else being equal, elites adopt technologies that benefit society because they will increase future output and consequently revenue for elites. However, when elites think certain technological changes would get the incumbent elite to be replaced, they will block the changes even when such changes benefit the national economy in general. By doing so, elites establish “extractive economic institutions” which are designed to extract wealth from the masses to the benefit of elites (Acemoglu & Robinson, 2012, p. 76).

The negative perceptions of the role of the elite have a long history and the denunciations in many cases target the elite in Africa. Critics of African elites argue that the new African elites merely replaced colonial rulers. Since independence, or the handover, power in African politics has been concentrated in a few hands (Gillies & Joseph, 2009, p. 3).⁴⁵ The elites in Africa, to bolster and maintain their own standard of living at the level of their European predecessors, “undertake half-hearted, loss making industrialisation” while soliciting large amounts of foreign loans and aid (Mbeki, 2009, p. 9). Taylor (2012) argues that only “gullible donors” believe that elites in Africa would channel aid toward national development. According to Taylor, the African elite simply do not have any commitment to general national development as is evident from the fact that African political leaders die of natural causes abroad; the implication is that African elites prefer to obtain expensive Western medical service rather than investing in national development such as health care and improving the quality for the person in the street.⁴⁶

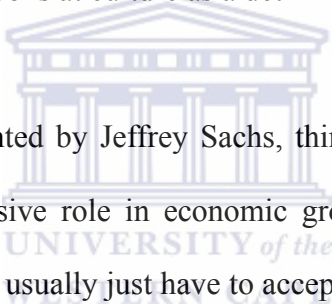


In other words, when elites fail, economic growth fails. Therefore, Brezis & Temin (2008, p. 5) assert that “a crucial element of economic growth is that the recruited elite be of the highest quality.” Elites make decisions on policies which become the basis of institutions. That is why all major schools on economic development and aid dependence regard the elite as holding a special position. In modernisation theory, the elite is at the centre of economic take-off since they plan industrialisation and secure international capital *in lieu of* an underdeveloped private

⁴⁵ In most African countries, the existing elite were replaced after independence but the new elite inherited and exploited colonial institutions. Thus, the elite is a crucial factor to explain institutional persistence (Robinson, 2012, p. 32).

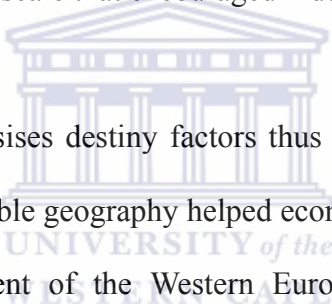
⁴⁶ Since 2010, 12 African heads of state died of disease while they were in office. Ten died abroad and the other two died on their way home from abroad.

sector. In dependency theory, the elite are blamed as being part of the oppressing mechanism created by the West; elites are the exploiter of the national economy of the Third World. In contrast, economic liberalism takes a less aggressive attitude toward the elite; nevertheless the elite are not desirable since they inhibit the entrepreneurship of the private sector. How the abovementioned major schools regard elites in economic development has been discussed substantially in existing literature. Instead, in what follows, two relatively new but widely accepted approaches on economic growth are briefly introduced in relation with an elite-oriented approach. The first school attributes poverty to largely unavoidable factors, such as climate or geography, and the second school looks at culture as a detrimental factor in economic growth.



First, a group of thinkers, represented by Jeffrey Sachs, think “destiny factors”, which human kind can hardly alter, play a decisive role in economic growth (World Bank, 2000b, p. 23). Those destiny factors which people usually just have to accept include location (whether a nation is landlocked or located in the middle of the desert or tropical forest), size of a nation, and extreme or irregular precipitation. These factors have economic consequences such as higher transportation costs due to lack of access to the coast, a heavier government burden due to tropical disease outbreaks, and failure of crops (Sachs, 2005). The destiny factor is also responsible for a low population density, which is often referred to as one of the factors that hinders Africa’s economic take-off. In the initial stage of economic growth, climatic conditions control population levels, through outbreaks of diseases or crop failures. Africa and Latin America did not have large-enough populations to stress resources or to spur technological innovations. Africa, even before slave trade, did not have enough population to cause population

pressure, and this shortage was aggravated by the slave trade.⁴⁷ When population density increases, people face limited productivity of the land and devise new technology to boost productivity and feed the people. The idea of ‘population pressure’ which is a term first coined by Ester Boserup, becomes the trigger of innovation and economic growth (Easterly, 2001). Due to the lack of population, Africa failed to encounter the economic pressure for growth which took place in Europe and Asia. Also, in the area of technological innovation, a low population has an adverse effect on economic growth since a low population density raises the costs of infrastructure (World Bank, 2000b). Africa did not have a large enough population to create markets and domestic demand on a scale that encouraged industrialisation.



The school of thought that emphasises destiny factors thus holds that unfavourable geography hinders development while favourable geography helped economic development in other parts of the globe. The early development of the Western European countries with a significant population size is partly due to their location close to the sea and rivers. That advantageous location helped them to expand maritime and riparian trade and stimulates them to develop the skills and technologies necessary for navigation, leading to technology advanced enough to colonize other continents (Baran, 1957). Rodrigues-Clare (1996), even though he does not explicitly point out geographical factors and aid dependence *per se*, also takes geographical factors into consideration in his powerful argument of the “underdevelopment trap”. When a country with a small open economy is located geographically far from the large international

⁴⁷ The estimated number of Africans sold as slaves varies from ten million to two hundred million due to the absence of precise data (Rodney, 1972). Despite the uncertain number, the impact of the slave trade on Africa had an irreversible and regressive impact on its economy.

markets or suppliers, it is not attractive enough for foreign investors since the transportation costs are high. Hence, the country fails to accumulate capital and consequently, the wage level remains low in a self-reinforcing underdevelopment trap. This maintains constant poverty.

However, even though it is true that tropical diseases cause a lot of human, agricultural, and livestock suffering, according to Acemoglu & Robinson (2012, pp. 48-56), the destiny factors are not the cause of poverty in the tropical region. The gap between the poor countries and wealthy countries which took place in the 19th century in Europe was neither by divergent agricultural performance thanks to more favourable climate or geography nor by healthier people with longer life expectancy. Instead, the decisive cause that created the cleavage in the European continent was different attitudes of elites in dealing with new technology. In contrast to England in the 17th century, elites in Russia and Austria-Hungary actively blocked the adoption of new technologies for industrialisation, such as railways, in fear of political destabilisation that was likely to be caused by industrialisation and urbanisation and chose to keep society agrarian (Acemoglu & Robinson, 2012, pp. 222-226). Of course, members of any group of society can resist the introduction of new technologies when they perceive the technology as a threat to their own survival. However, as the failure of the Luddites movement in Britain presents, any opposing group without political power to effectively block the dissemination of technology comes to fail (Acemoglu & Robinson, 2012, p. 85). It hinders economic progress only when elites with formidable political power form opposition against the introduction of new technology that is perceived as threat to their *status quo* political and economic power even if the technology can benefit society as a whole.

Culturalists also do not agree with the idea of the destiny school. Harrison (1985, p. 1), who defines development as “improvement in human well-being” sees increase in the creative capacity of all people as the way towards achieving development. According to him, other factors such as natural endowments, geographical conditions, geopolitical location, and institutional soundness can only influence the pace and direction of economic development, but they cannot be its locomotive. Values and attitudes of people, e.g. in relation to punctuality, rationality, and equality are important. These attitudes affect development, especially ethics and attitudes about work. When values and attitudes are unfavourable to economic development, this situation could be the biggest obstacle to efforts to promote economic development. Including Harrison, scholars from the culturalist school finds culture as a source of poverty or prosperity. This popular culturalist hypothesis dates back to Max Weber (1930) who argued that the Protestant ethic was the key to economic growth in Western Europe (Acemoglu & Robinson, 2012, pp. 56-57). From the 1980s, after the economic success of the East Asian nations in the 1970s, the culturalist view became more popular in explaining the economic establishment of the region (Choe, 2006, p. 86).

Others find culture as a cause of economic backwardness. Through a voluminous study of South Asia’s economic underdevelopment, Myrdal (1968), points out that the attitudes of people are not immutable to improvement and they can be redirected in favour of development through investment in health and education. In the same sense, Bauer (1971), quoting the example of the Navajo Indian population, argues that no matter how much foreign aid streams into a recipient country, material advance will not happen if people in that country are not interested. According to Bauer, people and their attitudes towards poverty in aid-receiving areas are different from

those in aid-giving ones, and this retards progress in aid-receiving countries and thus, the key determinant is people's attitudes followed by social institutions and political arrangements.

Since culture is believed to play an important role, some scholars have made attempts to find the origin of 'problematic' culture. The impact of the colonial experience on the post-colonial economy of the colonised countries is discussed in a large body of literature including Fanon (1968) who argues the experience of social violence of slavery had an impact on the overall society and mind-set of African people. Scholars of this school, instead of emphasising the physical structure's impact on the economic growth of the colonised countries, argue that the colonial experience carries more weight. According to Lewis (1955), people in a society that experienced slavery have inherited an idea that work is fit only for slaves. In a society of this kind, a lavish life style is wanted without a work ethic and hard work. Entrepreneurship and a socio-political environment friendly to economic growth are unlikely to take place in those places.

However, the cultural hypothesis does not explain a number of critical cases in the history of economic growth. The hypothesis does not explain the different level of economic growth under an almost homogeneous culture, for instance in North Korea and South Korea (Acemoglu & Robinson, 2012, pp. 57-58). Before the two Koreas were divided after World War II, North and South Korea had been one country for more than a millennium with relatively tight border control. Consequently, the two Korea have shared homogeneity in terms of history, ethnicity, language, clothing, food, etc., or more broadly culture. However, today, North Koreans are living in abject poverty because of the authoritarian elites and their policies, not because of their

culture. If culture is the key to their poverty, one cannot explain the economic prosperity of South Korea sharing the same cultural background with the poor North. In addition, culture is not immutable. Culturalism treats culture as a static variable, but in the world of contingency, culture changes over time and thus it would be short-sighted to explain economic performance through culture (Samuels, 1994, p. x).

Even though culture is not the significant factor that divides economic prosperity and poverty, values and culture matter because these factors affect the attitudes of people in general and especially the elite, for instance the post-colonial mind-set of elites as a consequence of colonial experience. Krueger (1995, pp. 37-51) questions why poor countries would keep policies inimical to growth and concludes that the answer should be sought in the origins of those policies: the colonial legacy, ideas on development at the time of policy adoption, and the perceptions of the role of government. Pointing out the key role of elite culture in Africa, Mkandawire (2001, p.295) also asserts that “lack of ideology of development is evidence of the cultural rejection of development by African leaders and their followers.” In other words, elite mind-set, or ideas matter in economic growth. In order to understand the elite mind-set, one needs to examine various factors including history. Therefore, the rest of this chapter examines the cultural, ideological and historical factors that influenced elite perceptions in Korea and Ghana. The focus is on elite perceptions of economic growth and a state, i.e. elite’s perspectives on mercantilism.

3.3 Ideas that influenced the elite in Korea in the 1960s

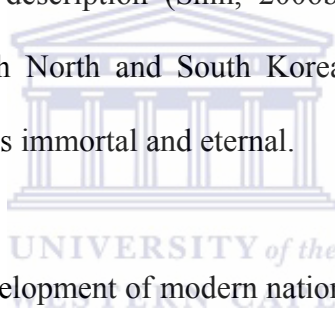
This section introduces three main ideas that influenced the elite in Korea in the 1960s regarding their interpretation of mercantilism. It starts with explaining nationalism in Korea from the elite's perspective. Then, the Japanese influence of technological supremacy on Korean elites is introduced, and lastly, the section looks at modernisation theory and its impact on the elite in Korea as an influential development ideology of the time (*zeitgeist*) across the world and as a US ideology on developing the Third World.

3.3.1 Korean nationalism

Korea is “an exceptionally homogeneous one ethnic group nation state” (Choe, 2006, p. 84). It is generally known that Korean people hold relatively strong nationalism as Armstrong's (2007, p. 272) succinctly puts it as “few people with even a passing knowledge of Korea can fail to be impressed with the depth and persistence of Korean nationalism.” Even though there are a few contending views on where the strong sense of nationalism originates, it is agreed that a number of factors contribute to Korea's strong sense of ethnic nationalism (Lee, 1963; Shin, 2006b; Armstrong, 2007): the sense of unity which dates back 4 000 years ago by legend of which at least last 2 000 years can be traced in documents; well-defined and stable territory⁴⁸; a centralised bureaucratic state for more than a millennium; and a single ethnicity shared not only by biological heritage but also by culture and language with little variation across the state.

⁴⁸ Borders of the three dynasties, Silla (57-939), Goryeo (939-1392) and Joseon (1392-910), were well defined from much earlier than those in Europe and did not drastically change over time. Crossing borders was restricted to government delegations and those who cross borders illegally were beheaded until the 19th century (Choe, 2006, p. 93).

Based on such a variety of factors, modern nationalism in Korea was able to take root at the end of Joseon Dynasty (1392-1910). Japanese colonialism played a critical role not only in forming nationalism in Korea but also in developing it by provoking a sense of resistance and unity among Korean people against assimilation policy under Japanese rule in the 1930s. Japan, which also had its own version of strong ethnic nationalism, justified its annexation of Korea saying the Korean race is inferior to the Japanese race, and such racist propaganda motivated Korean nationalists to advocate and preach the distinctiveness of the Korean race to the Korean populace, suffering defeatism, through newspapers and private schools (Choe, 2006, p. 95). Until today, according to Shin's description (Shin, 2006b, p. 226), the presence of strong nationalism is pronounced in both North and South Korea, and many Koreans, even today, believe Korean ethnicity or Korea is immortal and eternal.



Against this background of the development of modern nationalism in Korea, the way the elite in Park's regime used nationalism for economic growth is interesting in a few respects. First, most of the military elites in Park's regimes, used to serve as Japanese military officers including Park. As will be explained in a latter part of the thesis, Park was also nationalistic to Japan insofar as he not only fought in a Japanese war for Japanese victory, but also voluntarily abandoned his Korean name and changed it to a Japanese name in an effort to Japanese himself. In addition, before he became a Japanese soldier, he was a teacher at a public school and at the time, the role of teachers in public school was to Japanese Korean people. After independence, Park joined Namrodang, which was a communist party in South Korea, in which the international socialist class held higher priority than South Korea as a nation. Therefore, the nationalism which was generally shared by the Korean populace did not seem to affect most of Korean military elites

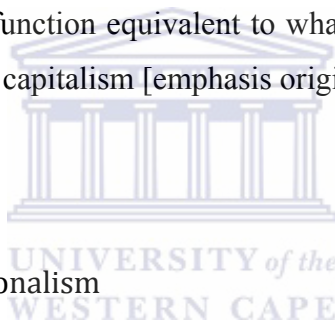
under Japanese rule and afterwards. Still, when the military elite took power, nationalism became the legitimising ideology of their coup. Moreover, nationalism became the key ideology that the military elite relied heavily on in the period of post-war economic development (Armstrong, 2007, p. 273). The military elite used nationalism in two ways: first to recruit technocrats abroad and second, to mobilise people for economic growth.

First, the military elites used nationalism in order to repatriate highly skilled expatriates from abroad. The reverse-brain drain was a systematic effort led by Park and his military elites. Park's cash-strapped government which did not have much to offer to compensate the skilled expatriates "appealed to their nationalism and patriotism" through individual persuasion (Yoon, 1992, p. 7). This state-led repatriation was successful and the military government succeeded in bringing in 553 PhDs in Economics and Science from abroad. Given that there were only 79 PhDs residing in Korea in 1965, it was a huge form of empowerment to the government. Those repatriated brains became the first elite group of technocrats and they played a leading role in designing economic and industry policies and restructuring the national economy in Korea.

Secondly, the elite used nationalism as ideology for economic growth. They called for sacrifice by people for a better future of the father land. Indeed, the link between strong nationalism and industrialisation was noted by a number of economic development thinkers such as Rostow and Hansen. According to Rostow (1959, p. 6), "a reactive nationalist sentiment" against foreign threat is highly linked with industrialisation. In addition, Hansen (1976, p. 29) also argues that "an unusual degree of acceptance of the (national) identity" can explain "patriotic sanction to the motives of private gains as an underlying force in the economy."

In short, in Korea, the military elites who took power at first did not share the same strong sense of nationalism with the Korean populace. However, they used nationalism to repatriate brains abroad and built highly capable technocrats equipped with a high sense of nationalism and patriotism. In addition, the military elites effectively used nationalism among Korean people. Shin (2006b, p.229) insightfully summarised it as follows:

Authoritarian regimes relied on nationalist rhetoric to justify their autocratic system and to mobilize the populace for ‘national’ goals they identified as security and development...in South Korea nationalism was instrumental to the rise of ‘developmental ethic,’ which performed a function equivalent to what Max Weber called the ‘Protestant ethic’ in the rise of Western capitalism [emphasis original].



3.3.2 Japanese technonationalism

As mentioned above, the military elite in Korea served Japan, and most technocrats were also survivors of and educated in the period of Japanese occupation. However, they usually denied or remained silent about their Japanese lineage (Atkins, 2010, p. 12), and Korean scholars are not eager to excavate the colonial linkage regarding its economic growth. According to Kohli (1994, p. 1270), the strong nationalism among Korean scholars created blind spots to deny the colonial influence on Korea’s fast economic growth. He argues that “Japanese colonial influence on Korea, in 1905-1945⁴⁹, was *decisive* in shaping political economy that later evolved into the high-growth South Korean path to development” [emphasis added] (Kohli, 1994, p. 1270).

⁴⁹ It is assumed that Kohli used 1905 as an initiating year of Japanese rule because the Japanese Protectorate Treaty was signed in that year. However, the Annexation of Korea by Japan took place in late August of 1910. Thus, it is correct to change it to ‘1910’-1945. The author of this thesis did not find any other publication using 1905 as the beginning year of Japanese colonisation of Korea.

However, his colonial lineage determinism fails to explain the dismal economic growth of North Korea. If North Korea, where the identical colonial influence took place during the same period, does not show the same high-growth economic development, colonial experience cannot be the 'decisive' explanatory factor of economic growth. Hasan (1976, p. 26) also argues that even though the 35 years of Japanese occupation significantly influenced the culture and society of Korea, it was "only limited segments of Korean life" and the impact on economic structure was also limited because of "the restrictions placed on Korean participation in economic and political planning and management."

In addition, whereas Kohli (1994, p. 1286) suggests export-oriented policy in Park's regime as a specific colonial lineage from Japan to Korea, he fails to recognise that Park had pushed import-substitution strategy as a national development model *prior to* the export-oriented one. Export-oriented strategy was adopted only after import-substitution strategy was implemented and proved to fail in Korea (Kim, Gwanghee, 2008). Therefore, it is logical to conclude that export-oriented policy was adopted by trail-and-error, instead of by the Japanese colonial lineage in Korea. Furthermore, even though a number of observers such as Suh Sang-Chul (1966) and Schumpeter (1940) explain that Korea's economic growth under Japanese rule, which was 3 per cent per annum, was export-led growth, the pattern of trade was an epitome of extractive colonial trade. It was dominated by the forced export of high-quality rice to Japan and import of cheap rice to replace the domestic demand (Kuznets, 1977, p. 11). Therefore, the mere fact that Park's government also chose the export-led growth strategy does not mean that the regime returned to colonial origins in economic policy making.

Even though Kohli's argument that Korea's economic path would not have been adopted without its colonial experience from Japan has a significant degree of fallacy⁵⁰, one cannot deny that Korea's military elites were influenced by Japanese military culture. Regarding the wealth and security of the state, one outstanding and lasting ideology of Japan is technology supremacy as a tool to build a state stronger and richer. Samuelson (1994), in his book *Rich Nation, Strong Army*, explains that Japanese industrialisation started with military industries with an aim of strengthening the nation through technological advancement under the slogan of 'Rich Nation, Strong Army'. Behind the military industry-led industrialisation, over centuries there was a strong Japanese belief that the nation cannot be militarily strong without advanced technology. Samuel (1994, p. x) named the Japanese belief "technonationalism", which refers to "the belief that technology is a fundamental element in national security, that it must be indigenised, diffused, and nurtured in order to make a nation rich and strong." This technology supremacy influenced elites in Korea during the era of Japanese occupation. For most technocrats in Korea the Japanese model was the model Korea should copy identically (Kim, Chung-Yum, 2006, p.145). The technonationalism became more obvious when the elite in Korea decided to turn its economic course towards heavy-chemical industry in the later stage of its industrialisation in the 1970s in the midst of deteriorating regional security. The US announced the Nixon doctrine of 'Asian defence by Asians' by which the role of the US army in South Korea was planned to be scaled down in the late 1960s and, at the same time, North Korea's provocation was increasing (Moon, 1999, p. 3).

⁵⁰ The fallacy, in part, is believed to be caused by the limited access of literature on Korea, especially publications written in Korean. As Kohli (1994, p. 1289) admits, he only examined English language literature, and the lack of language capability would lead to a biased conclusion, especially in qualitative researches as his.

In sum, whereas, traditionally (and up to today), political elites in Korea despised the colonial lineage and Japanese impact on Koreans and especially on them, it was impossible for elites in Korea in the 1960s to be free from Japanese influence. Even though the thesis refutes the idea that Japanese colonial experience was the decisive factor in Korea's economic growth, the Japanese perspective on economic growth, notably regarding technological supremacy, influenced elites in Korea in Park's regime, and it is observed in Korea's turn to heavy-chemical industry in the middle of increasing security concerns.

3.3.3 Modernisation theory and Rostow

Modernisation theory, as an ideology of developing the Third World, had a big influence on elites not only in Korea but across the world. Among various versions of the modernisation argument, Rostow's economic version of modernisation notably made a significant impact on the elite in Korea. Rostow was not only a development economist but also a government official and presidential advisor specialised in the Asian region. As a result, his idea of stages of economic growth influenced elites in Korea not only as an idea but also as an American policy dealing with Korea and US aid to Korea. This section examines, first, the logic of modernisation theory, and then introduces Rostow's argument on economic modernisation and its impact on the elite in Korea.

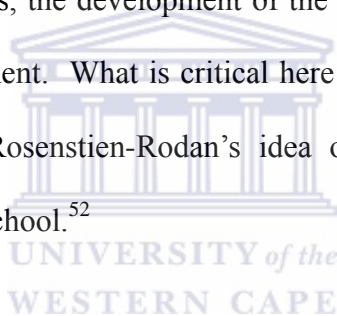
Modernisation theory became popular in the late 1940s and continued through the 1960s. According to the theory, development entails an evolution from a lower form to a higher one. The West, which is in a higher position, can guide the lower Third World through aid-giving and

technology transfer. Modernisation theorists perceive that modernisation first occurred in the West through commercialisation and industrialisation. The West is “a special kind of hope” to the underdeveloped Third World (Apter, 1965, p. 1), and colonialism is “an interesting historical phase” which became an opportunity for the Third World to learn from colonial systems brought by Europeans (Apter, 1965, p. 56). Modernisation can replace traditionalism and colonialism in backward regions through occupational specialisation, commercialisation, urbanisation, and religion (Apter & Lystad, 1968, p. 88). Modernisation theorists saw the development of backward regions as an all-inclusive process not only involving economic issues but also political, cultural and psychological ones. The term “modernisation” was used in every field with various connotations. Political “modernisation” in the colonial system was sought by placing Westernised secular elites onto Westernised governments.⁵¹ Politically, development follows the path from a primitive and traditional monarchy to modern secular democracy (Almond & Powell, Jr., 1966). From the social development dimension, the foundations of society develop from traditional “clan sanguinity” to various occupational groups which are not subject to considerations of birth or consanguinity (Durkheim, 1972, p. 142). Even though there are subtle differences, the core idea of modernisation is a uni-linear and irreversible process.

In every sphere of modernisation, industrialisation takes a special space. Industrialisation is synonymous with development in modernisation theory. Industrialisation requires vast amounts of capital that are too much for private sectors to provide; in view of this, a state at the centre of development is a logical consequence. In *Problems of Industrialisation of Eastern and South-*

⁵¹ Thus, modernisation theorists understand independence as an unfortunate historical event that replaced modernity with systems that manipulate it.

Eastern Europe, Rosenstien-Rodan (1943, p. 204) argues that a *laissez-faire* approach is not appropriate to train skilled labour for an industrialised economy. Individuals can be entrepreneurial but they lack sufficient information for the whole national economy. In order for the individuals to get benefits from positive external economies of scale, a state should be an active participant that creates and plans the whole national economy as “one huge firm or trust.” When various industries are developed simultaneously, labourers hired in one industry can become consumers of the goods produced by other industries; also infrastructure for one industry can benefit other industries as well. Once a country reaches this level of sharing of consumers and infrastructure among industries, the development of the country expedites with the positive spiral of complementary development. What is critical here is the role of coordinated planning which only a state can play. Rosenstien-Rodan’s idea of a “Big Push” later becomes a foundation of the pro-foreign aid school.⁵²



The economic version of modernisation sees economic growth as stages that a country should go through as illustrated in Rostow’s (1959; 1960) *Stages of Economic Growth*. Rostow (1959; 1960) presents five stages of economic growth that generalise modern economic history based on the dynamics between supply, demand and the pattern of production: the traditional society, the precondition to take-off, the take-off, the drive to maturity and the age of high mass consumption. The traditional society has limitation in production due to the ceiling in technological advancement. When a society meets the preconditions of technological advancements, it takes off led by “the achievement of rapid growth in a limited group of sectors

⁵² Modernisation theory puts a state or a government at the centre of development as “a modernising instrument” (Apter, 1965, p. 54).

where modern industrial techniques are applied” (Rostow, 1959, p. 7). The technologies, initially limited to a few leading sectors, spread into the rest of the economy in the stage of the drive to maturity. When a society reaches the final stage, adoption of new technology is not an over-riding objective of the society anymore and high technology goods as well as welfare and leisure are consumed on mass basis (Rostow, 1959, pp. 4-12).

Among those stages, what captured elites in developing countries most was the stage of precondition to take-off. Indeed, when Rostow visited Korea in 1965 as the Chairman of the US State Department Policy Council, he delivered a speech to the Korean public at a University in Korea, and in the speech, he said that “Korea is already in the early stages of take-off”, which gave a boost to the confidence of elites in Korea, even though, given the economic situation of Korea at the time, his remark must have been just diplomatic (Kim, ChanJin, 2009, p. 71). In addition, Rostow argued that such preconditions can be led and established by nationalistic elites (Rostow, 1959, p. 6). According to his argument (1959, p. 5), the precondition period is critical because it is when the three non-industrial conditions are established for industrialisation, i.e. take-off: first, transport not only for movement of goods and people but also for efficient governance; second, a technological advancement in agriculture which enables increase in population and urbanisation; and third, expansion in imports and financial imports. For late industrialisers, financial imports is critical since “such increased access to foreign exchange was required to permit the less advanced region or nation to increase the supply of the equipment and industrial raw materials it could not then itself supply” (Rostow, 1959, p. 5).

Right after Kennedy was elected Rostow was invited to the Task Force on Foreign Economic

Policy and developed his theories into policies especially regarding newly development countries in Asia (Park, 2007, p. 138). Even though some intellectuals in Korea criticised modernisation theory and Rostow's idea as imperialistic (Park, Heebum, 1968)⁵³, his idea influenced elites in Korea significantly not only as development ideology but also as US policies toward Korea. Even though his role in the American government did not last long,⁵⁴ he and his idea was at the centre of US foreign policy toward Asian countries including Korea, and his idea of stages of economic growth was adopted by the elite in Korea.

This section of the thesis examined a major ideological influence that built the foundation of elite perspectives on security and economic growth in Korea in the 1960s. First nationalism in Korea was examined from an elite perspective, and the Japanese techno-supremacy and Rostow's economic modernisation theory was introduced as ideology that affected elites' idea of economic growth. In the following section, the thesis examines ideas that influenced the elite in Ghana.

3.4 Ideas that influenced the elite in Ghana in the 1980s

Elites in Ghana in the 1980s were influenced by their own historical legacy and international ideologies of the time as well. In the 1980s, a different set of international ideology of economic

⁵³ Requoted from Park, Tae-Gyun (2007, p. 148)

⁵⁴ After Kennedy's assassination, Rostow, again, worked closely with Johnson regarding foreign policy toward Asian nations. He supported all-out bombing of North Vietnam during the Vietnam War and due to that, could not come back to the US government after Johnson withdrew his presidential candidacy (Park, Tae-Gyun, 2007, pp. 139-141).

growth influenced the elite in Ghana. In what follows, the thesis examines the Ghanaian version of elite nationalism and non-alignment movement as historical factors that shaped the foundation of elite perspective on the wealth and security of the nation. In the latter part, dependency theory is introduced as an international ideology that contributed to shaping elite perspectives in Ghana in the 1980s.

3.4.1 Ghanaian Nationalism

From the beginning, the elite in Ghana were the prime advocates of nationalism. Nationalism in Ghana shares commonalities with African nationalism in its origin but at the same time has the unique Ghanaian features which originated in its post-colonial experience. Therefore, in order to understand the nationalism that influenced Ghanaian elites, one needs to understand African nationalism in comparison with Eurasian nationalism as well as the distinct Ghanaian historical factors.

To provide a context to the emergence of nationalism in Ghana, this section starts with providing a brief historical review on the emergence of the nationalist elite of the Gold Coast in the colonial era. In the late 19th century the Gold Coast had three main different groups of elites: families of traditional Chiefs, European ruling class and the newly educated Africans. At first, the newly educated elites made an alliance with traditional Chiefs against racial discrimination of the European elite. However, at the turn of the century, the new elites started to challenge the traditional elites as the British indirect rule supported the traditional elites rather than the newly educated elites. According to Coleman (1954, p. 408), one of the pioneers in the scholarship of

nationalism in Africa, “tiny educated minorities” in Accra popularised nationalistic sentiments by preaching it as emancipation from “a servile colonial mentality” and tapping the grievance among “the tradition-bound mass”. Nationalism, for those new elites, was “perceived as the quintessential creation...in simultaneous revolt against the dead hand of tradition and the live weight of alien rule” (Young, 1994, p. 66). The newly educated elites claimed their leadership on a national scale which they learned from training in modern world, and by the end of the 1920s, these new elites, most of whom were wealthy and professional, began to take the lead in the National Congress movement (Busia, 1956).

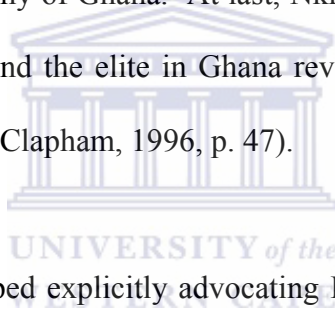
According to Kilson (1958), who explains the development of Western African nationalism through the emergence of the middle class, the claims and aspirations of Western-educated professionals in the middle class were not fulfilled in colonial institutions and this frustration led to political movements which later became political organisations demanding self-government. However, even though Kilson (1958, pp. 372-373) rightfully points out the role of wage-earning urban labourers and income-earning farmers in the spread and support of nationalism, his categorisation of middle class which includes from farmers to Kwame Nkrumah is too broad. If the top echelon of Kilson’s middle class is re-categorised as the elite, his argument that nationalism was used by the middle class, namely elite, as means for protecting and advancing socio-economic and political status in the colonial era gives more insight to the origin of nationalism in Ghana and Western Africa generally. To name a few who are in Kilson’s category of middle class but indeed were elites, there are J. John Mensah Sarbah who was a leader of the first Western Africa nationalist organisation, Aborigines’ Rights Protection Society, (he was a son from a wealthy family and Western educated, and he also was the first African to be invited to

the British Bar in 1887); J. B. Danquah who was educated at the University of London and the founder of the United Gold Coast Convention, the parent organisation of Convention People's Party of Kwame Nkrumah; and Kwame Nkrumah, the founding president of independent Ghana, who was educated at Lincoln University in the US (Kilson, 1958, pp. 384-385) .

In other words, the fervour of nationalism in Africa started by “the bourgeois national elites”, who were in high positions in the colonial administrative system, such as top civil servants, lawyers, judges, and senior army and police officers, into whose hand the colonial administration handed over political power (Kofi, 1973, p. 98). Of course, elite-centric development of nationalism is not a unique feature found only in Ghana. In fact, as Young (1994, p. 70) points out, “a class dimension to the idea of nationalism is one of its universal properties” since the elite class is the main beneficiary of nationalism. However, nationalism in Africa is distinctive due to its multiple identities. The colonial institution imposed three different identities onto Africans: a racial African, a native in a colonial partition, and a member of a certain ethnic group. Those identities later develop as pan-Africanism, territorial nationalism and a sense of ethnicity, respectively (Young, 2007, p. 247). With these dynamics, nationalism in Ghana has been developed in part as a distinctive Ghanaian nationalism and in part sharing commonalities with an African version of nationalism as explained below.

On top of the shared colonial experience, Ghana's nationalism became uniquely Ghanaian since Nkrumah claimed pan-Africanism. The pan-Africanism can be interpreted as overpowering of continental identity over state-nationalism in Ghana. Nkrumah, the first president of the first independent African nation, perceived the balkanisation of Africa as the most threatening danger

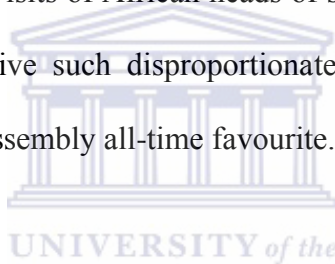
on the continent. Pan-Africanism was his old ambition which he had since his days at Lincoln University (Rooney, 1988, p. 140). In practice, Nkrumah's pan-Africanism began with the Ghana-Guinea Union in 1958 which later included Liberia. Nkrumah urged African nations to join a union of African states and to tackle the obstacles in building his visionary union together. Nkrumah said that Ghana's independence and its relative economic prosperity were meaningless without the complete liberation of the whole African continent, and indeed he was committed to sacrifice the resources of Ghana for a liberated and united Africa (Lengum, 1962). This would be a great and necessary commitment as a leader of Pan-Africa, but this grandiose goal was not beneficial to the people and economy of Ghana. At last, Nkrumah was ousted by the right-wing supported military coup in 1966 and the elite in Ghana reverted to the conventional notion of statehood (Kofi, 1973, pp. 98-107; Clapham, 1996, p. 47).



Even though Ghanaian elites stopped explicitly advocating Pan-Africanism, it was transformed into non-alignment in Ghana's foreign policy (which will be discussed in the following section of the thesis, 3.3.2). In addition to the legacy of pan-Africanism as the distinctive Ghanaian feature, Ghana's nationalism shows commonalities with most other African countries. Young (2007) raises a question how the sense of national unity in African states can be persistent despite of the dereliction of state institutions and consequent socioeconomic and political hardship in the daily life of average Africans. If one consider the exogenous and artificial nature of nationalism in Africa, the persistence of African nationalism is even more perplexing (Young, 2007; Englebert, 2009). Whereas nationalism among citizens in Africa is persistent, to the elite in Africa, nationalism was a means to enrich the ruling elites and to strengthen the patron-client relations between them. In short, the elite in Africa used nationalism as a tool of "legitimation of the

holders of sovereign power” (Englebert, 2009, p. 200).

As explained earlier in Chapter one, sovereignty has mainly three dimensions: international legal sovereignty, domestic sovereignty and Westphalian sovereignty, and a sense of nationality should be based on all those three dimensions. However, elites in dysfunctional countries where domestic sovereignty is not upheld overemphasize the international legal dimension of sovereignty to promote nationalism among the masses of the country. According to Engelbert (2009, p. 61), “this is in part why visits of African heads of state abroad and their meetings with other heads of state tend to receive such disproportionate coverage in African media, with speeches before the UN General Assembly all-time favourite.”



Nationalism in Ghana is far from an exception in this regard. The elites in Ghana in the 1980s were also losing domestic sovereignty to control domestic economic activities while most Ghanaians resorting to black markets for necessities and exchange currencies. They yielded the Westphalian sovereignty or autonomy of Ghana to international donors in exchange for foreign currency and the foreign aid enriched the elites. In the meantime, the elites appealed to nationalism to sustain their survival. In Ghana, like most African nations, nationalism in the populace is persistent. Nkrumah proposed the name Ghana in an attempt to create the sense of national unity as he explained: “it is clear the name of GHANA [the name of an ancient West African empire] serves the purpose of providing the people of the Gold Coast with a symbol of

their national unity and a link with past history” (Great Britain Colonial Office, 1953)⁵⁵. And, throughout the unrelenting economic hardships of the 1970s and 1980s, there had not been any critical revolts by the grassroots resisting the dysfunctional and exploitative state institutions and the state elites. Instead, there were several coups and counter coups which only changed members of the top ruling class in the name of nationalism.

3.4.2 Non-alignment

The Non-aligned Movement (NAM) is one of the critical elements that have shaped a frame of thoughts of Ghanaian elites in foreign policy making. The debates on what non-alignment means, which continue up to today, began in the 1950s (Williams, 1987, p. 50). Independent Ghana’s founding president Kwame Nkrumah was one of the key figures who collectively conceived of the idea of NAM along with Nasser from Egypt, Nehru from India and Tito from Yugoslavia (Rooney, 1988, p. 214),⁵⁶ and since then, the NAM became the moral foundation of Ghana’s foreign policy. Especially, the elite in the Rawlings regime who identified themselves as ideological inheritors of Nkrumah found the philosophical ground of their foreign policy in the non-alignment.

⁵⁵ Quoted in Kilson, 1958, p. 381.

⁵⁶ Some scholars note that the conception of NAM was the triumvirate of the other three figures except Nkrumah (Hveem & Willetts, 1973, p. 4; Abraham, 2008, p. 196). However, Nkrumah attended the Bandung Conference, which was essentially a meeting among Asian countries, as one of three African attendants (Gold Coast, Liberia and the Sudan) (Williams, 1987, p. 53) and put forward the idea of NAM in his UN address in 1960 before the idea was officially launched in 1961 (Rooney, 1988, p. 214).

In 1961 the NAM had its first conference in Belgrade where the principle of the movement and the criteria of membership were announced after a few years of preparations and discussions since the Bandung conference in 1955. According to the criteria, in order to become a member of NAM, a country should not belong to either the Communist or the Western military bloc; should not have any bilateral military agreement with either of the blocs; should not have any foreign military base on its soil; should support liberation and independence from colonialism; and should have a policy of peaceful co-existence (Burton, 1966, p. 19). Ghana, as one of the 25 countries represented in the first summit, has been a prominent upholder of the idea from the beginning.⁵⁷ According to Hveem and Willetts's (1973) research on the practice of NAM, none of the member countries in NAM was fulfilling every one of these criteria to become a member except four countries: Ghana, India, Nepal and Kuwait. They used for proxy indices of diplomatic relations, military cooperation, UN voting, and trade volumes to measure the neutrality and found out that Ghana and India were "the most prominent" in the movement (Hveem & Willetts, 1973, p. 22).

While most scholars consider non-alignment as a collective foreign policy behaviour of the Global South, Rothstein (1976, pp. 112-130) argues that NAM is not foreign policy but a tactical response to the international distribution of power which serves the primary goals of elites in the Global South: maintaining personal security and creating a sense of national unity. According to his argument, NAM spares leaders from a burden of choosing a side in international politics and, as a result, it allows leaders to avoid domestic political conflicts caused by ideological

⁵⁷ Currently NAM has 120 member countries (16th Summit of the Non-Aligned Movement, 2012) and the next summit of NAM is scheduled in 2015 in Venezuela.

differences. Moreover, NAM gives a sense of independence and sovereign equality since it plays a role as a symbol of “freedom and independence and the right to decide important issues without Great Power meddling” (Rothstein, 1976, p. 117). Therefore, for elites who are not willing to take a risk of restructuring domestic politics and economy, NAM is an attractive political choice. However, NAM did not mean practical gains, such as foreign aid. Instead, aligned countries such as Korea and Taiwan, were the biggest aid recipients. Consequently the ideology of non-alignment became less persuasive, and eventually, “the powerful NAM lost some of its *raison d’être*” with the demise of the Cold War (Braveboy-Wagner, 2003, p. 4).

Nevertheless, it is still a “frame of mind” to elites in member countries and certainly to those in Ghana (Sayegh, 1964, p. 94). One interesting aspect of non-alignment in Ghana is that even when elites upheld the on-alignment as a principle of its foreign policy, its practices were closer to building a stronger bond with Communist countries. It originates from Nkrumah’s ideological direction which was well expressed in his proposal in the first conference in Belgrade. At the conference Nkrumah proposed not only the end of colonialism but also the recognition of East Germany, the admission of mainland China to the UN, and appointment of three deputies to the UN Secretary General: one from the Western bloc, one from the Communist bloc and one from the NAM. This idea of three deputies was originally proposed by Russia (Rooney, 1988, p. 214). By any standard, such a proposal seems closer to pro-Communism than to neutrality or non-alignment. As a result, Nkrumah’s ‘non-aligned’ proposal caused anger in the Kennedy administration. The Ghanaian version of non-alignment made a lasting impact on subsequent regimes in Ghana; whichever regime proclaiming to inherit Nkrumahism, including Rawlings’s, which chose the ‘Ghanaian version’ of non-alignment in theory and pro-communist in practice.

3.4.3 Dependency theory

The foundation of elite perspectives in Ghana in the 1980s was shaped not only by historical contributors such as Ghanaian nationalism and NAM but also by international ideologies surrounding Ghana of the time. Notably, the elite in Ghana were influenced by dependency theory before they made the drastic foreign policy change toward neo-liberalism.

Dependency theory regards the West as an enemy to be blamed for aid dependence in the Third World. The theory finds its roots in the Indian nationalist movement in the early twentieth century. In *Economic History of India*, Dutt (1901), a high-ranking official in the British administration of India, elucidates that India in the eighteenth century was a great manufacturer that exported its manufactured products to Asia and to Europe. However, the trend reversed when British laws banned or placed a high import tax on cotton products produced in India and, at the same time, exempted tax on the goods admitted to India from Britain; the aim was to encourage manufacturing in Britain and to keep India as a source of raw cotton for British manufacturing. The policy devastated Indian manufacturing, and Indian people had to return to agriculture to make a living.⁵⁸

Later with Frank's well-known book, *Latin America: Underdevelopment or Revolution, Essays*

⁵⁸ Baran (1957, p. 150) develops Dutt's claim and criticizes modernisation theory as "it should not be overlooked that India, if left to herself, might have found in the course of time a shorter and surely less tortuous road toward a better and richer society...to realize her destiny in her own way, to employ her resources for her own benefit, and to harness her energies and abilities for the advancement of her own people."

on the Development and Underdevelopment and the Immediate Enemy (1969), dependency theory became a new tool to analyse the economic problems of Latin America and by extension the Third World. Dependency theorists vehemently deny the idea of linear development. Modernisation theory cannot be applied to the Third World since “the historical experience of the colonial and underdeveloped countries has demonstrable been quite different” (Frank, 1969, p. 3). In addition, economic development does not arise from the infusion of capital or technology as suggested by modernisation theory. Instead, technology and financial capital from advanced countries extract resources and credits from less-developed countries that are labour-intensive and skill-scarce through an international trade structure. The unequal exchange between exorbitant technology and goods versus cheap resources and labours perpetuates the unfavourable terms of trade in less developed countries (Emmanuel, 1972). Thus, a solution for less developed countries to beat poverty and dependency is to sever the ties with the so-called modernised world because the cause of underdevelopment comes from “participation in the process of world capitalist development” (Frank, 1969, p.7). In the same vein, foreign aid, according to dependency theory, is a tool of the First World to shackle the Third World. Payer (1974, pp. 212-3) argues that the root of perpetual aid dependence can be traced to the elite in recipient countries noting “powerful classes in poor countries benefit from aid [and would] suffer from its termination.” Dependency theorists understand that the foreign aid disposed by international financial institutes such as the IMF and the World Bank work on behalf of the rich Western countries.

Dependency theory appears to side with the Third World against the Western nations, but the theory can distract attention from the internal problems of the Third World to externalities.

Despite the heavy impact of the world's political and economic system, a country's economic development depends on various internal factors. In addition, dependency theory's assumption about the elite has a potential fallacy. It assumes that elites in dependent states comply with the elites in first world countries rather than promoting the interests of the general population of their own countries. Therefore, the elites in dependent states are partly responsible for underdevelopment of the Third World. However, it is not always true that the elite in recipient countries gain from cooperating with the "oppressing" First World at the expense of populations of the Third World.

A dependency perspective began to influence intellectuals in Ghana in the late 1950s and the early 1960s. In Africa, including Ghana, an African version of dependency theory thrived as "neocolonialism" which was coined by Kwame Nkrumah (Dzorgbo, 1998, p.16). As part of actions taking place against neo-colonialism, in the 1960s, Ghana recognised the People's Republic of China, which made Ghana the second African country that recognised China after Guinea; Nkrumah welcomed the first Chinese ambassador Huang by presenting his credentials as "in the fight for freedom and independence of all Africa, Ghana could count on the support of the Communist Chinese government and people" (Chau, 2007, p.143). In the same vein, neo-colonialism, multinational enterprises and unfair international trade structures were denounced as the culprit for the plight of Ghanaians.

When Rawlings took power through the second coup, he was supported and surrounded by radical intellectuals with the dependency idea. His main support groups, such as the June Fourth Movement, the Kwame Nkrumah Revolution, and the New Democratic Movement, shared the

dependency ideology, believing that Ghana was basically wealthy and evil doers were Western capitalists and pro-West Ghanaian elites. For them, courting Western capitalist countries or the International Monetary Fund (IMF) for aid was reverting to colonialism, and therefore it was “anti-nationalist” (Gyimah-Boadi, 1993, p. 4). Around the time of Rawlings’s second coup in 1981, dependency theory was “the single most influential body of ideas” that took hold of intellectuals, especially at the University of Ghana (Nugent, 1995, p. 32). Such radical intellectuals were also the members of the June Fourth Movement whose chairman was Rawlings.

Therefore, the foreign policy change toward the IMF was a dangerous and significant change since Rawlings and the elite in Ghana relied heavily on the dependency perspective in legitimising themselves and in understanding economic and development problems. The foreign policy shift towards neo-liberalism⁵⁹ in 1983 was “perhaps the most significant shift” of the regime (Gyimah-Boadi, 1993, p. 8).

⁵⁹ Along with the election victory of Margaret Thatcher in 1979 and Ronald Reagan a year after, neoclassical theory as contained in the *Wealth of Nations* strongly re-emerged. In his path-breaking book, Adam Smith (1863) argues that in order for an economy to grow, the role of government should be limited to three basic functions: defending sovereignty, protecting the rights of citizens, and providing public goods. Any more government intervention beyond these three functions hinders free markets and results in inefficiency, retarding economic growth. According to economic liberals, the smaller the government, the better for the economy and thus, for aid independence. Neo-liberalists believe that the elite stifle entrepreneurship and create rent and patron-client relationships. In contrast to dependency theorists, economic liberals or neo-liberalists claim that joining global trade in a more aggressive manner and receiving benefits of the bigger market is the most effective way to break free from aid dependence (World Bank, 2000b, pp. 235-258). They argue that following the first liberation from colonialism and second from tyranny, Africa can and should have a third liberation and establish economic development by having fewer government policies and more private sector autonomy (Mills & Herbst, 2012). Despite the utter failure of the economic liberalist philosophy in Africa and Latin America in the 1980s, represented by the SAPs, economic liberalism is still powerful in guiding aid disbursement in the Bretton Wood Institutions.

3.5 Conclusion

This chapter examined why elites matter in foreign policy, aid policy and economic growth. Elites have information and authority to make decisions within the black-box. The international system or mass media and public opinion tend to have influence on decision-making elites but theoretically and empirically their impact has been proven, at best, limited. In terms of aid independence or aid dependence, the role that the elite play is also decisive. Elites can stunt economic growth by blocking adoption of new technology that can benefit the populace as a whole in order to keep their privileged political and economic status. On the other hand, they can lead economic growth by building institutions open to new technology. Such different attitudes come from ideas which are inherited to or surround the elites. In the sense, the thesis examined ideas that influenced the elite in Korea in the 1960s and in Ghana in the 1980s. At first, the thesis examined the distinctiveness of nationalism in Korea and Ghana. In Korea, nationalism was already strong among the populace, and opportunistic military elites who did not show any evident nationalistic propensity before they took power utilised the existing nationalism to recruit techno-elites and to mobilize people. In contrast, in Ghana, historically nationalism was created and propagated by elites who needed to obtain power against ethnic traditional elites and colonial European elites. Since then, nationalism has been used as a tool of the ruling class to maximize their security and wealth in Ghana and by extension in Africa. Other than nationalism, the Japanese ideology of technological supremacy and US ideology of stages of economic development were examined as ideas that influenced the foundation of elite perspectives in Korea in the 1960s. In Ghana, on the other hand, non-alignment, as a basis of Ghanaian foreign policy, and dependency theory were introduced. Based on this background, the

rest of the thesis examines the two cases of Korea and Ghana.



Chapter 4 Korea, industrial mercantilism

In 2013, the website of *Foreign Policy* magazine posted a number of pictures showing poverty in Korea in the 1950s under the title of *Once upon a Time in Seoul: Remarkable images of South Korea before Samsung and Psy* (Wittmeyer, 2013). Korea's outstanding economic growth has become a popular subject not only in scholarly writing but also in popular writing and speeches on economic development. Sohal and Ferme (1996) and Murphy and others (1989) focused on domestic economic policies such as nationalisation of the banking system or industrial policies such as a big push strategy; they selected certain industries and companies to explain South Korea's remarkable economic growth such as the economy of scale and price control, and to assess the effect of punishment on capital flight.⁶⁰ Even though it is not as heavily investigated as Korea's domestic economic policy, Korea's foreign economic policy has also been studied vis-à-vis economic growth. Instead of focusing on Korea's foreign economic policy as such, this chapter focuses on the perceptions of the Korean elite which formed those policies. Special attention is given to the diplomatic normalisation with Japan which was the critical moment of development path in Korea and how it shaped the path of aid independence.

First, a history of Korea's foreign policy before the Korea-Japan diplomatic normalisation is briefly introduced. Second, initial conditions before the critical juncture of normalisation are examined, and here, other alternatives that Korea had before it turned its foreign aid policy toward Japan are examined. Factors shaping the elite's perceptions of industrial mercantilism are studied from multiple dimensions of international, local, and elite politics as well. In the third

⁶⁰ According to the law passed in 1960, illegal overseas money transfer of more than \$1 million was eligible for a minimum sentence of ten years in prison and a maximum of the death penalty (Chang, et al., 2012).

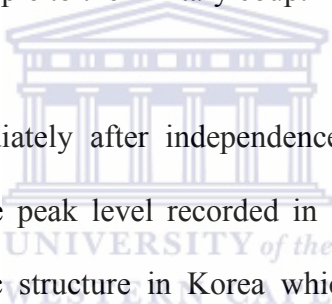
part of the Chapter, the writer examines how the path of industrial mercantilism was stabilised through reinforcement, repetition, and institutionalisation and led Korea to aid independence. Based on the empirical work, in the fourth part of the Chapter, the thesis studies the political economy of industrial mercantilism and concludes the chapter with a summary.

4.1 Korea before Park: A brief history

Since Silla state (57-939) formed the first unified kingdom in the seventh century in the Korean peninsula, two more Korean dynasties ruled the peninsula before the Japanese occupation: Goryeo (939-1392) and Joseon (1392-1910). Even though there were intermittent and numerous wars against neighbouring China and Japan, borders of the three dynasties were well-distinguished and stable, and central bureaucratic governments were in place from much earlier than those of European states (Cumings, 1997). However, as Kuznets (1977, p. 3) succinctly describes, “Korea’s modern history has been a history of tragedy.” Before Park took power in 1961, Korea had been a weak state for more than a century (Alice, 1989, pp.27-29). Before it was colonised by Japan, the fractured and corrupted upper class of the Joseon Dynasty (1392-1910) was losing its legitimacy due to repetitive revolts led by angry peasants rising up against autocrats. The weak state was finally coerced into opening its doors to Japan in 1876 and the era of Japanese colonisation began in 1910, with a forced bi-lateral treaty imposed by Japanese military force.

Colonisation replaced the traditional elites and social status system with a “quasi-class system of

colonial capitalism” which included new classes of bureaucratic professionals (Kim, Kyong-Dong, 1988, p. 198). Korea became independent in 1945, but both the first and the second administration of the Republic of Korea were still weak. The first government of Rhee was “clearly inimical to developing planning” and was replaced after a student demonstration in April 1960 (Haggard, 1991, p. 855). The second government produced some reformist ideas but was soon overthrown by the military coup of Park in 1961 before it could implement those ideas. Park’s military regime was the first strong state that Korea had known in more than a hundred years. There was a national call for a strong government at the time, which could be one of the reasons for the calm reaction of people to the military coup.



In terms of the economy, immediately after independence in 1946, Korea’s manufacturing capacity fell to 25 per cent of the peak level recorded in 1939; this fall was because of the collapse of the colonial economic structure in Korea which relied on Japan for its capital, technology, and market. In addition, the three-year long Korean War broke out in 1950 devastating the already meagre economy, and the resulting damages amounted to 85 per cent of GDP in 1953. The international community reacted upon such damage first with relief aid and later with construction aid. After the Korean War, nearly 15 per cent of Korea’s GNP and 80 per cent of its foreign reserves came from foreign aid, excluding military aid (Cole, 1971).

Between 1950 and 1960, total aid of \$2.41 billion was given to Korea by international donors, but the US was the primary source of the international aid; between 1948 and 1963, the US poured \$1.8 billion into Korea (Kim, ChanJin, 2009, p. 34). Korea’s economy was absolutely dependent on foreign aid. Between 1953 (the year that the Korean war was over) and 1960 (the

year before Park's coup), the US aid accounted for one-third of the Korean government budget, which was equivalent to 85 per cent of total imports and 75 per cent of gross fixed capital formation⁶¹ across the period (Kim, ChanJin, 2009, p. 34).

In the meantime, Korea's foreign reserves gradually declined since 1961 due to the reduction in aid from the US and the expansionary policies of the new regime, which made the government increasingly concern about earning financial capital (FrankJr, et al., 1975, p. 15). The US unilaterally announced drastic aid cut to Korea due to the general recession in the US. US aid to Korea dropped from \$371 million in 1957 to \$220 million in 1959 (Kim, ChanJin, 2009, p. 36). Before the foreign policy change instituted by Park in 1963, Korea's exports were \$55 million, foreign reserves were \$168 million and the economic growth rate was 2.2 per cent in 1962. In 1963, foreign reserves fell to \$114 million and the national economy was still sustained by foreign aid mainly from the US (Choi, Sang-oh, 2005). In addition, the burden of debt was gradually growing, even though it did not reach the significant level, since the US began to substitute grants-in-aid with credit aid from the end of the 1950s (Kim, ChanJin, 2009, p. 34; Kim, Jiyoung, 2013, p.9).

⁶¹ Gross fixed capital formation means “the total value of a producer's acquisitions, less disposals, of fixed assets during the accounting period plus certain additions to the value of non- produced assets (such as subsoil assets or major improvements in the quantity, quality or productivity of land) realised by the productive activity of institutional units” (OECD, 2001).

4.2 Initial conditions

This section studies the period before the critical juncture of diplomatic normalisation between Korea and Japan. The initial condition period is characterised by other possible options. This section examines the other options Korea had and focuses on the process of narrowing-down of the options to the juncture. Many writers in different schools have been analysing factors contributing to the 1965 normalisation treaty between Korea and Japan. Initially, studies focused on the role and influence of historical animosity and individual political leaders (Lee, Chong-Sik, 1985). In the 1990s, the role of the US in the process of protracted negotiations received greater attention (Cha, 1996). More recently, the focus moved to the domestic political economy of Korea and Japan (Yoon, Tae Ryong, 2008). Even though the development of the 1965 diplomatic normalisation is still an intriguing subject to many historians and social scientists focusing on the Pacific region, the thesis does not examine this issue closely. Rather it aims to gain a better understanding of the elite perceptions of foreign aid which led to the normalisation.

4.2.1 Alternatives: international consortium and domestic financial capital

Park's government, as was the case with previous administrations, feared any aid from Japan. The elites in Korea worried that aid could be the beginning of a Japanese economic invasion which would lead to constraints in political autonomy. It should be noted that Korea became independent from Japan only about fifteen years before Park took office. In the beginning, alternative aid sources were sought, and the Korean elite favoured an international consortium for Korea's economic development. However, the original plan did not go well. In 1961 the Korean government made its first attempt to obtain funds but this had limited success; indeed,

little interest was shown by DAC in the OECD or by other potential donor countries such as Australia, Canada, the US, France and Germany. In a further attempt, in November 1963, the Korean government asked the Canadian government to participate in the consortium for Korea's economic development and provided \$1.9 billion to cover the first Five Year Development Plan; this further attempt did not succeed either (Chun, Taek-Soo, 1999, pp. 130-135; Yoon, ByeongCheol, 2011).⁶²

In addition to seeking funds from the international consortium, the Park government chose to rely on local financial capital. In order to attract dormant local capital, Park changed the currency from Hwan to Won in 1962. He anticipated that there were hidden private capital in the domestic market, and when old banknotes became obsolete, the hidden capital owners would take the money out to exchange it for new currency. However, this surprise change of currency led to the realisation that there was very little local capital available. In addition, this sudden currency change was executed without the authorisation of the US government, who disapproved of it and brought unease to US-Korea relations (Kim, Chung-Yum, 2006, pp. 96-126).

4.2.2 The Cold War, the US and Japan

In a study of the long process of negotiation for diplomatic normalisation, Cha (1996) points out that the role of the US received attention relatively late in the 1990s. Initial studies focused on

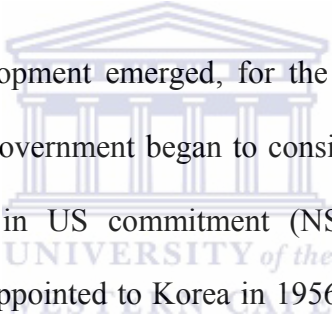
⁶² The international consortium, including Japan, was established in 1968. The fact that the consortium was established only in 1968 means that at the time of the Korea-Japan diplomatic normalisation there was no other source of foreign financial capital for Korea's economic development.

the historical and emotional baggage of the two countries, which was a hindrance to diplomatic normalisation; this baggage included an inferiority complex of Koreans and a superiority complex of Japanese.⁶³ Park was very aware of Japanese economic progress, and this personal factor was considered decisive to the normalisation. Many writers have pointed out his personal inclination toward Japan as the critical contributing factor to Korea-Japan diplomatic normalisation. In the 1990s, however, government documents on the 1965 Korea-Japan treaty in the US were declassified and these shed light on the role of the US and its interests; these documents were then studied as an important and previously missing piece of the puzzle in explaining the normalisation (Cha, 1996). Now it is generally agreed that the US needed the Korea-Japan normalisation more than Japan did, and so the US pushed Japan to negotiate with Korea in a serious manner (Ahn, Soyoung 2008, p.114; Yoo, ByongYong, 2009). The US-Japan-Korea relations formed a critical part of the US world strategy, and, therefore, the diplomatic normalisation cannot be fully understood without knowledge of the role of the US.

For the US, the purpose of the Marshall Plan was to contain Communism at an international level after World War II by rebuilding the economy and confidence in war-torn Europe. Asia, unlike Europe, originally hardly existed in the minds of Americans. This only changed around 1948 when the Chinese Communist party achieved a political victory on the mainland. US President Truman suggested a new Marshall Plan in Asia in his inaugural speech in 1949; this is also known as the Point Four Speech. However, the Korean War in 1950 and its accompanying increase in military cost stopped the Asian version of the Marshall Plan. During the following

⁶³ For example, studies focused on the fact such as Rhee personally detested Japan and that the Japanese Prime Minister at the time, Yoshida Shigeru ignored Koreans. Yoshida Shigeru once described Koreans in Japan as "insects in the stomach of a lion with the potential to kill the lion itself if not checked" (Lee, quoted in Cha, 1996, p.128).

decade of the 1950s, under the Eisenhower administration, US aid was allocated in accordance with military strategy through the New Look policy. The military-oriented aid-giving policy toward Korea altered in the late 1950s. At that time, the Korean economy was overwhelmingly dependent on American aid. Between 10 per cent and 23 per cent of GDP or 35 per cent to 50 per cent of the government budget came from American aid throughout the 1950s. The US prescribed neo-liberalist economic policies to Korea to overcome its aid dependence, and the US aid during the period was mainly in the form of consumer goods rather than aid for construction (Yoo, ByongYong, 1999 & 2009).



In the late 1950s economic development emerged, for the first time as a goal of the US in providing aid to Korea. The US government began to consider economic aid as a tool to raise the Korean people's confidence in US commitment (NSC 5702, 1957). The economic coordinator, William Warne, was appointed to Korea in 1956 and strongly asserted the need for Korea to draw up its own economic plan. His assertion influenced many Korean elites (Park, Tae-gyun, 2007, p. 41). In 1958, the National Security Council of the US added a "self-supporting economy", again for the first time, as a long-term objective in Korea (NSC 5817, 1958). This shift, however, should be understood from the Cold War framework rather than from any perspective of international development. As Wade (2007, p. 1) comments, "Americans...were extremely serious about accelerating economic development, because they saw this region (Korea) as the front-line in the battle against global communism and they needed to have economically prospering and politically stable allies on the front-line."

The redirection toward economic development as a goal of US aid in Korea became even clearer

in the Kennedy administration. McConaughy in April 1961, in his last report to his government before relinquishing his post as Ambassador in the American Embassy in Korea, suggested that “[a] carefully conceived and rigorously pursued long-range economic development plan is an absolute necessity, providing not only the blueprint for action but also the grounds for hope and a sense of achievement that would go with the formulation and execution of such a program” (Document 210, 1961). Farley’s report (Document 202, 1961)⁶⁴ to Rostow, the economist and the President’s Deputy Special Assistant for National Security emphasizes the need to shift emphasis towards developing the Korean economy instead of merely preventing it from going down (Document 204, 1961). Another influential report by Robert W. Komer (Document 203, 1961) also pointed out that “underlying ills and needs (in Korea) are economic.” In the report, Komer suggested the solution of a decade-long commitment to (1) divert military aid to economic aid; (2) build up the economy of Korea by focusing on “public sector, creation of light labour-intensive industry, and full utilisation of main ROK resource—people”; (3) balance long-term and short-term planning, and (4) a crackdown on corruption. Komer (Document 226, 1961), a few months later in a memorandum to the President’s Special Assistant for National Security Affairs, argued that previous US foreign aid was wrongly focused on military support and “did little more than keep the economy afloat” rather than making it grow. His arguments were in line with the Korea Task Force in the US which was formed about the same time. What Farley, Rostow and Komer suggested became the basis for a newly redirected foreign policy toward Korea in the Kennedy administration. Among these people, notably Rostow as an influential high ranking policy maker, redirected American foreign policy towards aid recipient

⁶⁴ When Hugh D. Farley wrote this 18 page report he had just finished his post which was to be in charge of the Technical Assistance Program in Korea.

countries and had a huge impact on America's diplomatic path to Asian countries including Korea and also the Korea-Japan relationship. Based on what Rostow designed, US aid policy turned to planned, public and more aid.

Still, the pursuit of economic development in Korea was a product of the Cold War. In Korea, the US chose economic growth under dictatorship, not democracy, as a more efficient tool to fight against international Communism. Democratisation of South Korea was the cited reason for the US dividing the Korean peninsula into two. Nevertheless, the US showed its ultimate interest was not democracy in South Korea but stability under a military junta as long as it is anti-Communist. This Cold War calculation was behind Kennedy's swift acceptance of the military junta headed by Park, who took power in an unconstitutional way, as the 'legitimate' head of Korea. Kennedy tried to assure the Korean people by inviting Park to the White House soon after the coup to show America's confidence in him as a leader of Korea (Lee, WanBom, 2009). The Cold War policy of Kennedy was non-interference in domestic affairs as long as the nations are anti-Communist, and Park understood this very well. His pursuit of the path to economic growth while sacrificing democratic advances was possible because of the attitude of the US. Park had overambitious economic plans which the US sometimes did not support, but was very well aware that the US could not turn a cold shoulder to him as long as he kept Korea as a strong anti-Communist ally sharing a border with the Communist North Korea backed by the USSR (Shin, JongDae, 2009).

The US government wanted to decrease its financial contribution to Korea and this placed pressure on Korea and Japan to normalise relations. Also, aid to Korea was cut in 1964.

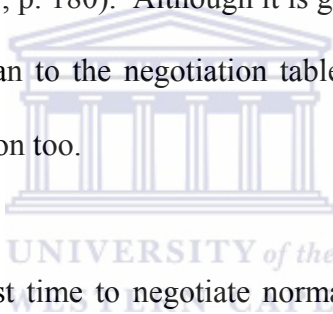
Eisenhower tried to build Japan as a base camp to contain Communism in Asia but this was not easy because the Japanese economy was not big enough to play a leading role in Asia and most Asian countries resisted the growing presence of the former Asian colonial power. Later, during the Kennedy administration, Rostow and Komer both supported rapprochement between Korea and Japan. In the 1960s, the Japanese economy became strong enough to carry some burdens and Komer (Document 255, 1962) advised Kennedy that normalisation of foreign relations between the two countries was important to the US and the US expected Japan to take “a greater share of the burden of subsidising South Korea.” Thus, the Kennedy administration pushed both parties to normalisation (Document, 260, 1962).⁶⁵

At the same time, the US worried that Japan would see less incentive to sign the normalisation treaty since it would strengthen Korea's economy (Document 256, 1962). In the beginning, Japan was not eager for normalisation with Korea. Japan's lukewarm engagement with negotiations in the initial stage shows that the normalisation was not at the top of Japan's foreign affairs agenda although afterwards, despite that Japan later claimed that this was only a negotiation tactic (Ahn, Soyoung, 2008, p. 115). Japan did not want to be trapped in Cold War politics by being engaged in South Korea, but at the same time, Japan feared being abandoned by the US (Yoon, Tae Ryong, 2008, p. 64). Moreover, despite America's efforts to encourage Japan to be a new contributor of aid to Asian countries, the Japanese government was not willing to assume this role because of domestic factors, such as strong socialist forces, low GNP per capita, high interest rates, a large trade deficit of \$400 million, lack of public interest in aid and

⁶⁵ Yoo (2009, pp. 48-55) notes that most of America's foreign policy under Kennedy did not materialize and it was the Johnson administration that exerted strong influence on Korea and Japan relations.

increasing local demand on social welfare (Ahn, Soyoung, 2008).

However, the Japanese political elite needed America's support for its survival. Thus, under increasing pressure from the US, Japan began to show more willingness to negotiate with Korea. Finally, a newly-appointed Japanese Foreign Affairs Minister placed normalisation of Korea-Japan relations at the top of the Japanese foreign affairs agenda, at his first press conference in 1962 (The Dong-A Ilbo, 1962 July 19).⁶⁶ The causes of the redirection of Japanese foreign aid policy in the 1960s can be found in factors outside Japan, especially the Johnson administration's Asian policy (Park, Tae-gyun, 2007, p. 180). Although it is generally agreed that the US pressure was a decisive factor that led Japan to the negotiation table, some other internal and regional factors pushed forward normalisation too.



First, Japan thought it was the best time to negotiate normalisation at a relatively low cost to Japan. The Japanese government was well aware of the need for normalisation with Korea. Tokyo regarded Korea's new leader Park as providing an unprecedented opportunity to rebuild the relations at the possible lowest cost. Japan understood that Korean people would also ask for more for compensation and Park, who needed money desperately and who could suppress such popular demand in an authoritarian military manner, would be the perfect leader to negotiate with. In addition, Japanese businesspeople lobbied for normalisation partly because Korea was an untapped market for Japanese manufactured goods. Moreover, many big projects in the second Economic Plan in Korea would be financed by Japan and this meant opportunities for

⁶⁶ The next items on the 'agenda' were building new commercial relations with the newly-organised EC, trade with Communist countries, and negotiations towards Britain-Japan economic cooperation.

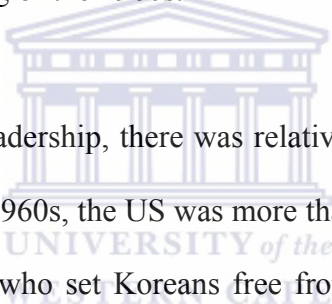
Japanese firms since the financial package that the Japanese government would offer was expected to involve Japanese private firms (Cha, 1996, p.129). In addition, geopolitically, Japan was feeling threatened by increasing hostility from Communist China. Japan did not want a scenario of involving the collapse of economically crippled South Korea and the ultimate invasion by communists of Korea, which is within an hour's distance by ship from Japan.

In this thesis, proper consideration is given to the motivations of the US and Japan because the elite in Korea were aware of these motivations and this affected the elite in Korea. For instance, Park who was desperately seeking for 'authorisation' from the US after the coup, stopped in Japan on his first trip to the US. He, as a coup leader, needed something to assure the US that he was the appropriate leader for Korea. He believed his commitment to Japan-Korea normalisation would win America's trust. However, Yoon (2008) points out that those analyses focusing heavily on the pressure of the US is not plausible since it was a constant factor throughout the first, second and the third administration of Korea. Thus, it is not sufficient to explain how the agreement was reached at that particular time, in 1963. The changes in the US in 1963 were too subtle to force the elite in Korea and Japan to sign the treaty at the particular point. Thus, the following section examines the internal conditions that affected the elite in Korea.

4.2.3 Local demand for strong leadership

The first republic of Korea was overthrown on April 19, 1961 by demonstrators that asked for stronger leadership. Chang Myon, the president of the second administration was not a leader

who could fulfil this demand. McConaughy, then US ambassador in Korea, sent a telegram to the White House in which he describes absence of leadership of Chang as “an ingredient definitely lacking at present in Korean political scene” (Document 210, 1961). A magazine titled *Sasanggye* (World of Thoughts) which was at the centre of debate by intellectuals in the 1960s introduced an article by Schlesinger titled ‘On Heroic Leadership: and the Dilemma of Strong Men and Weak Peoples’. The article asserted that “by denying positive leadership a role within the democratic frame, it has tied the hands of democratic societies; by discouraging leadership, it has encouraged crisis” (Schlesinger, 1960, p. 11). This article represented the call for strong leadership in Korea in the beginning of the 1960s.



In addition to the lack of strong leadership, there was relatively strong anti-Americanism in the 1960s in Korea. In the 1950s and 1960s, the US was more than just a friend to Korea. For many Koreans, the US was a “saviour” who set Koreans free from Japanese imperial occupation in 1945, sent troops to set Koreans free from North Korean Communist oppression, and later sent millions of dollars of aid for restoration after the War (Shin, Gi-Wook, 2006a, p. 793; Kim, Seung-Hwan, 2002, p. 114). However, after the April coup in 1960 which collapsed the Rhee administration, the anti-American climate became noticeable especially regarding to the active role of the US in division of Korea for the sake of America’s quick international diplomatic victory in 1953 (Kim, Hyung-A, 2003b, pp. 126-129). The high anti-American sentiment among Koreans before the military coup helped the emergence of the strong state formed by the military regime (Kim, Hyung A 2004, pp.48-54). In addition, a call for Korea’s independence from the US in government decision-making was rising after the event that the Korean government failed to imprison Korea-based American soldiers; they killed innocent Korean civilians but flew to the

US without standing in courts in Korea because Korea did not have judicial power over the crimes that American soldiers committed in Korea.⁶⁷ Out of humiliation and anger, a university student criticised Korea's foreign policy for being "Yes, Sir policy" (Lee, Seok-hwan, 1961, pp. 31-32). To compound matters, US aid management began to upset many intellectuals in Korea. American aid was criticised as being a tool to control Korea and to maximize the national benefit of the US at the expense of long-term development of Korea. *Sasanggye* published articles calling for a new strategy for better management of foreign aid; without a better aid management Korea was expected to fall into the same aid dependence as South East Asia and Latin America (Cho & Bu, 1961, pp. 200-210; Kim, Hyung-A, 2003b, pp. 126-129).

This national sentiment was reported to the US as well. According to a telegram sent by the American Embassy to the US government in April 1961, a bilateral aid agreement between Korea and the US was regarded by Koreans as "derogatory of their sovereignty." However, the problem was not just the terms of aid. The US decreased significantly its aid to Korea from 1960 onwards, and US aid to Korea hit the lowest point in sixteen years in 1965.⁶⁸ The Korean government, business people, and population were all dependent on aid from the US. The reduction causes a national crisis and economists began to argue that it was time to change Korea's economic structure (Go, Seungje, 1960; Choi, Hojin, 1958). These aid-related issues encouraged "nationalism in Korea, delayed by war and reconstruction, now becoming an

⁶⁷ According to the ROK-US Status-of Forces Agreement (SOFA), Korean government did not have judicial power on criminal activities committed by American Army based in Korea.

⁶⁸ The amount of US aid fell from \$216.4 million in 1963 to \$149.3 million in 1964 (Han, 1978, p. 59).

important factor in Korean life” (Document 210, 1961).⁶⁹ The anti-American sentiment at the beginning of the 1960s is noteworthy because Korea was still dependent on the US for its survival at that time. Anti-American sentiment, or nationalism, was a fertile ground for industrial mercantilism among Korean decision-makers.

It is ironic that the intellectuals in Korea in the beginning of the 1960s called for a “young and revolutionary leader” in order to build a “liberal democratic nation” (Kim, Sanghyeon, et al., 1960). The military coup in May 1961 gave Koreans the young and revolutionary leader they wanted but what he built was far from being a liberal democratic nation. However, his revolutionary and strong leadership worked for restructuring the nation’s economy. In this sense, according to Kim Hyung A (2004, p.64), the military coup should be understood not only in terms of discontent within the military but also in terms of the “Korean popular demand for total reform” as expressed by “liberal intellectual, politically sensitive urban citizens and students,” and the call for strong leadership was “perhaps” stronger than the call for democracy itself. That demand for strong leadership facilitated not only the military coup but also the subsequent strong government drive to industrialisation. Industrialisation, in developing countries with a comparative advantage with labour, is a process that requires a powerful state drive as a precondition. Park’s regime could exercise the strong state leadership as a response to Koreans’ popular demand, and this became a ground for industrial mercantilism to flourish.

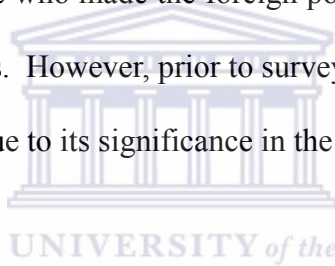
The demand for strong leadership can also be understood against the background of a threat

⁶⁹ Kim Hyung-A (p.94) rightfully notes that the emergence of anti-American sentiment after the April Student Revolution should not overshadow deep-rooted anti-Americanism regarding the division of its country into North and South.

perception about national survival. A number of scholars agreed that an external threat may boost industrialisation and economic development of a state. Cumings (1984) researched economic development in East Asia and asserted that the existence of external enemies was the root of economic development, citing the examples of North Korea to South Korea and mainland China to Taiwan. Rostow (1971, p. 61) also concluded that the threat or resentment of external enemies promoted industrial restructuring for take-off. In addition to the emergence of Communist China and Vietnam, North Korea posed a threat to Korea. Indeed, North Korea was not just an ideological threat. The presence of North Korea and the initial economic advances of North Korea that outpaced that of South Korea came as a threat to the South Korean elites and population. However, the economic and industrial progress that North Korea made in the 1950s, at the same time, acted as stimuli to the South Korean government. North Korea launched the 'Three Year Economic Plan' in 1954 and the first 'Five Year Plan' in 1957 and made excellent progress in developing heavy industry. According to reports from the North Korean government, during the first Five year Plan between 1957 and 1960, total manufacturing output increased by 3.5 times. Even though the number was probably exaggerated by the North Korean government, it is still true that North Korea was establishing fast economic growth in comparison to South Korea and other Asian countries. Park's regime felt threatened by North Korea's fast economic growth and set its economic growth rate as high as 7.1 per cent despite disagreement from the US, and his intention was to outpace North Korea (Park, Tae-gyun, 2007, p. 37). Kim Kyong-Dong (1988, p. 206) also argues that Park's government had no other option but to announce South Korea's first Five Year Economic Development Plan as a counterplan to North Korea's Economic Plan "to overcome the sense of insecurity and to ensure the survival as a nation" from the threat of North Korea.

4.2.4 The elite in Korea

In this thesis, the Cold War dynamics and local conditions are approached as factors that affect the elite perceptions of national security and wealth around the foreign policy change. However, to understand the foreign policy redirection fully, in addition to the question asking what affected the elite, another question should be raised: who were the elites? After that, the thesis can properly examine why the lingering negotiations over diplomatic normalisation ended. In what follows, the thesis looks at the elite who made the foreign policy decisions: Park Chung-hee, his military elites, and new technocrats. However, prior to surveying those elites, as background, the role of land reform is introduced due to its significance in the emergence of the new elites.



Land reform is “an essential requirement to promote the pace and direction of development” and is critical to wider economic growth (Leftwich, 2000, p. 6). The role of land reform in opening the door of national development in Korea is so critical that it is generally agreed that had Korea not conducted land reform in the 1950s, there would not have been later economic growth (Lie, 1998; Leftwich, 2000). Land reform in Korea contributed to economic growth and political stability through turning poor and unmotivated tenants into active landowning farmers and abolishing traditional landowning class in a Korean society as a whole.

In addition, especially in this thesis, land reform played even more critical role in emergence of new elites in the 1960s in Korea. Land reform was not only a solution to rural poverty but also it undermined the power and influence of agrarian elites who hindered industrialisation (Lie, 1998,

pp. 12-13). The land reform carried out in Korea in 1950 contained three main features: first, a landowner should be the cultivator of the land he/she owns; second, no one can own more than 3 *jungbo*, which is equivalent to less than 3 hectares or 7.5 acres; and third, it is illegal to rent agricultural land (Jeon & Kim, 2000, p. 254). The government bought agrarian land from landlords at the price of 1.5 times its annual crop yields, slightly lower than market price, and former tenants paid the same amount in five years, which ultimately discounted the price to 1.25 times the annual yield (Ban, et al., 1980, pp. 288-9; Jeon & Kim, 2000, pp. 258-9).

The land reform fundamentally reshaped socioeconomic structure of Korea. Before the reform, for more than half a millennium, the ruling class in Korea had been the landed gentry called *yangban*. The *yangban* dominated Joseon Dynasty (1392-1910), and the domination continued under Japanese occupation. Japan never challenged *yangban* domination in countryside, and, in fact, Japan consolidated the agrarian elite as a part of Japanese rule since the oppressive tenure system served the Japanese Empire reasonably well by doubling Korea's crop export to Japan (Lie, 1998, p. 7; Ban, et al., 1980, p. 283). Thus, land reform brought in a radical change in social stratum which had long been dominated by the *yangban* whose source of power and privilege was land ownership. When post-independence government discussed land reform in the National Assembly and finally the reform became effective in 1950, the *yangban* or landholding class did not have political power to represent themselves in the Assembly because of their pro-Japan activities during the colonial period (Jeon & Kim, 2000, p. 257). As a result, in 1944, the richest 3 per cent of rural households owned 64 per cent of all the cultivated lands, while 58 per cent did not own any piece of land to cultivate, but in 1956, the top 6 per cent owned 18 per cent only (Lie, 1998, pp. 11-12; You, 2005, p. 22). The *yangban* virtually

disappeared and countryside became “a sea of small landholders” (Lie, 1998, p. 15). Elites in Park’s regime, especially military elites, were sons of those small landholders and it was only logical that they chose industrialisation as a national development strategy. They did not have a strong agricultural class resisting industrialisation drive and, more importantly, they did not have any personal interest in promoting agricultural industry. At last, the completion of land reform competed what Joseph Schumpeter (1954, pp. 81-86) called creative destruction which began with mass movement under Japanese rule in the 1930s and Korea War. From this background, following section examines the elite in Park’s regime.

(a) Park Chung-hee

Park started his career as a teacher after graduating from Daegu Teacher’s College (Daegu Sabeom Haggyo) in 1937. This was one of three teacher’s colleges sponsored by the colonial state of Japan. His primary job, as a Japanised teacher, was teaching Korean pupils according to the assimilation policy of Japan (Kim, Hyung A, 2004, p. 16). Three years later, he resigned and entered Manchuko Military School in Xingjing and later the Japanese Military Academy in 1942 as one of the top-honoured students in Manchuko Military School.⁷⁰ After graduation, he was assigned to the 8th Corps of Japanese Infantry as Second Lieutenant and his job was spying on local population. This corps was infamous for suppression of Korean and Chinese guerrillas who fought against Japan. He voluntarily Japanised his name to *Takaki Masao* while he was at the Manchuko School and later changed his name again to *Okamoto Minoru* to make it closer to a true Japanese name. He used his Japanese name until the independence of Korea in August 1945.

⁷⁰ He graduated from the Manchuko Military School as dux of his class.

When back in Korea, he became a Korean soldier as opposed to a Japanese one, and joined *Namlodang*, a Communist party. Later, under the hardcore anti-Communist Rhee administration, he was at risk of execution for his Communist history, but he avoided the death penalty in exchange for providing information on his Communist comrades in the army. Because of his connection with Manchurian Military School he managed to serve in the army again and that helped to promote him to a high-ranking officer who could successfully organize and execute the military coup on 16 May 1962 (Hong, SeongTae, 2007, p. 33).

Park's role is critical and decisive in Korea-Japan normalisation. He was the absolute decision maker and, despite some debate about it, was pro-Japanese. Park was educated in Japan, served as a soldier in the Japanese Army before 1945, respected Japanese figures, spoke Japanese, and sang Japanese songs when he was drunk (Lee, Joonsik, 2002; Ryu, Dongmin, 2004). Most historians point out that Park's the pro-Japanese attitude was one of the factors helping the normalisation process. However, one can also find numerous remarks by Park that show anti-Japanese sentiment, especially after he became the president. Thus, when Park visited Germany in 1964, the German Prime Minister recommended that Park should speed up the normalisation process and gave the example of German-French reconciliation. Park responded:

“Korea-Japan relations should be normalised as soon as possible....But Korea-Japan relations are different from German-French relations. You fought each other fairly with might and main. Thus it is also easy to apologize and correct the past wrongdoings. However, we were *stabbed in the back* (by the Japanese) without having a chance to fight a war with Japan... That's why our people have bad feelings toward them” (Yoon, Tae

Ryong, 2008, p.80 [emphasis added by Yoon])⁷¹.

In sum, given the series of metamorphoses of Park, from Park Chung-hee to *Okamoto Minoru*, then back to Park Chung-hee, to Communist, and finally to nationalist coup leader, he seemed to be a successful opportunist instead of a genuine nationalist. Extrapolating from his past, it seems that industrialisation became the new ideology he adopted for his survival and ambition as a coup leader of an impoverished country.

(b) Military elite

Even though the Korean elite groups have a long history of Confucian culture, the elite in Park's regime had something else in common apart from Confucianism. Park took power by military coup and his colleagues were appointed to almost every influential post, and notably, at the centre of the coup, there was the Military Academy's Eighth Class of 1949. The members of the Eighth Class shared a stronger sense of unity than other classes, arguably because they suffered the most casualties during the Korean War; the class produced the biggest number of graduates, 1 345, but after the War only 450 were alive. The sense of sacrifice gave them a distinctive sense of pride, nationalism and an egalitarian mentality. They regarded themselves as a reformist pressure group which represented the grievance of junior officers who had made a big sacrifice during the Korean War but did not get rewarded in promotion properly due to the stagnated and lopsided military hierarchy which, they thought, was based on factionalism and favouritism by President Rhee and the US military advisors (Kim, Hyung-A, 2003b, pp. 135-137). They were ambitious and highly respected by members of other classes of the Academy. Interestingly and

⁷¹ Yoon quoted this originally from Lee Dongwon (1992, pp. 98-100).

importantly, most of the Eighth Class soldiers had rural backgrounds including Park (Kim, Hyung A, 2004, p.60).

The militaristic culture of these elite influenced Korean society as a whole. Park's policies that empowered heads of enterprises and suppressed labour also stem from the regime's militaristic understanding of organisational structures. The political leadership that initiated the development plan was also militaristic (Kang, Junman, 2004b, p. 84; Kim, Kyon-Dong, 1988, p. 213). As Huntington (1968) points out, in most newly-independent states, the armed forces are one of the few bureaucratic organisations exposed to a modernised system of national management. Armies are one of the groups that most embody "the spirit of rapid technological change," (Pye, 1961, p. 83) in less modernised transitional societies. The elite in the military forces in Korea could take advantage of their exposure to the process of liberalisation and could gain from their experiences during the Korean War while fighting the Communist army of North Korea and China in conjunction with the US armed forces. However, although the army as the political elite was exposed to the "modernised" world, this is not a sufficient reason to explain their commitment to economic development. As one can easily see in cases of African military coups and their aftermath, a military regime ends up looking after its own interests rather than pursuing economic development. Therefore, the mere existence of the military elite is not enough to explain the characteristics of the regime that redirected foreign policy with the aim of industrial mercantilism in Korea.

(c) New elite

In Park's regime, the top management positions were filled with military men. Another

distinctive figure of that 'regime elite' was that the military elite were supplemented or supported by newly replaced technocrats. Two months after the coup, the new regime dismissed 6 900 civil servants.⁷² Soon after, the Korean Central Intelligence Agency (KCIA) discharged another 1 863 civil servants, and in 1962 banned 4 374 former politicians from political activities. These dismissals were presented as a total reform of society to save Korea, but they were mainly aimed at building Park's political base with the young elite replacing the old politicians (Kim, Hyung A, 2004. p.73).

The vacancy arising from these dismissals were filled with fresh young competent bureaucrats selected on merit through a government exam. The bureaucracy of preceding regimes was neither effective nor organised. Korea had competitive civil service exams to select competent bureaucrats since about 500 B.C., and passing this exam meant enormous prestige (Cheng, et al., 1999, pp. 100-105). However, the tests became careless and ineffective when Korea was subjected to the Japanese occupation, the Korean War, and the chaos of nation building after the War. Thus, restoring the examination system was one of the first items on Park's agenda. The National Civil Service Exam Law was adopted in 1963 to build the basis for professional bureaucrats across the nation. That Law marks the beginning of a meritocratic bureaucracy in Korea (Lee, Hahn-Been, 1968). The restoration was based on three principles: (1) open and competitive tests as a basis for appointments in general; (2) evaluation of performance on a particular post as a basis for promotion; and (3) job security for all public servants (Kim & Leipsiger, 1993, p. 30). The new system enabled Park's regime to secure more competent bureaucratic manpower as to support his regime.

⁷² 6,700 were dismissed for evasion of military service and the rest for keeping mistresses.

Park's regime succeeded in securing new and competent government servants through the reformed national exams. They could execute government plans for national economic development. However, the regime did not have talented officials who could plan and make decisions about long-term economic development, to transform industry. In the 1950s, in common with other developing countries, Korea suffered brain drain. According to Yoon (1992, p.6), the situation was as follows:

As of 1967, the percentage of drain for Korean engineers, natural scientists, and social scientists were 80.0%, 97.7% and 90.5% respectively (the corresponding world comparisons are 30.2%, 35.0% and 34.6%). Significantly, aggregate overseas Korean "brains" outnumbered those in Korea: As of 1965, those who had a doctoral degree at home totaled 79 whereas Korean scientists and engineers in the United States alone (although not all of them had PhD's) numbered approximately 869.

Accordingly Park initiated policies to reverse the brain drain and recruit high level Korean technicians from outside Korea. Recruiting highly educated Koreans from abroad was done in a systematic way. According to the Ministry of Science and Technology, which was in charge of the reverse brain drain programme, recruiting was conducted by following strict government instructions and rules. There were governmental requirements for repatriation. Thus, the requirements were for scientists or technicians who had had at least a two-year working career after gaining a PhD degree, with Korean ancestors and at least five published research papers in the past five years. Various incentives were offered to people who qualified and these included material compensation, research autonomy and technocratic authority, but mostly nationalism and patriotism was used to appeal to them (Yoon, Bang-Soon, 1992, p. 7). The state-led reverse

brain drain brought back 553 highly educated PhD holders between 1968 and 1980, and they mainly worked at public R & D institutes such as the Korea Institute of Science and Technology (KIST). KIST was founded in 1966 as a part of administrative reform for repatriated scientists in order for the industries targeted by government to develop strategically. These industries included electronics, chemistry, genetic engineering, and computers. The status of researchers and their work in KIST, as a government think tank, were insulated from political interference (Yoon, Bang-Song, 1992).

The elite technicians repatriated from abroad were appointed to positions where they could influence decision-making. Before the Park regime carried out the bureaucratic restructuring, technical experts worked under administrative staff in the bureaucratic hierarchy. Taking the Ministry of Commerce and Industry (MCI) as an example, under a minister and deputy minister were four directors-general who were in charge of the Bureaus of Industry, Mining, Electricity, and Commerce and Trade. The top positions in those four Bureaus were occupied by administrative staff, and technicians were “systematically sidelined or weeded out” (Kim, Hyung A, 2004, p.77). In 1962, however, two assistant deputy ministers, elite technicians themselves, were appointed for restructuring the MCI.⁷³ They appointed new young technical elites as directors-general in three bureaus of Industry, namely that of Mining and Electricity and appointed an expert from a private bank in the Bureau of Commerce and Trade. Through this type of bureaucratic restructuring, the decision-making positions, or elite, in Park’s administration came to be held by technocrats with practical knowledge, and these new elites

⁷³ Of the two assistant deputy ministers, Ham, Inyoung received his PhD in the US in mechanical engineering and Seong, Changyoung was a qualified electrical engineer.

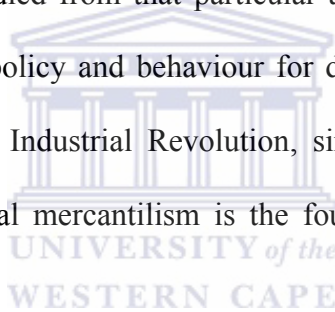
became the foundation of Korea's economic and industrial policy onwards.

In sum, when Park and his military elites took power, the survival of the nation was threatened, economically by the drastically cut US aid and militarily by the growing presence of North Korea which was outpacing the economic growth of South Korea. In the midst of the sense of crisis, Korean people, who were fed up with century of a weak and incapable state, were calling for strong state. Internationally, the US also was looking for a strong state in Korea which was capable of proceeding America's new Korea policy of boosting Korea's domestic economy as part of its international fight against Communists. Park and his military elites made best use of this domestic and international atmosphere. Even though it does not seem that Park and the military elite were genuinely nationalistic, they believed that building the national economy was the way for them to survive in relation to the Korean populous and with the US. In addition, most of the military elites were sons of small farmers who were created by the land reform. Therefore, they did not have any vested interest in sticking to agricultural business. Thus, the logical option for Park and his elites for their survival and prosperity was economic growth through industrialisation.

4.3 Path-dependent aid independence

The thesis argues that the main explanation for Korea's aid independence is the elite's perception of foreign aid: industrial mercantilism. Industrial mercantilism is based on the view that industrialisation and manufacturing are the keys to survival of a nation, and for the elite in

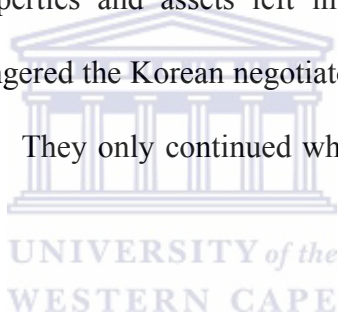
Korea, it meant the keys to survival of their own political position as well. As was noted earlier in the thesis, historically, industrial mercantilism is a branch of mercantilism, a belief that explains policies in Europe in the 17th and 18th centuries. Industrial mercantilism emerged with the Industrial Revolution in Britain when the capacity for manufacturing goods came to be considered more important than gold for the survival of states. The power of nations was believed to lie in their manufacturing capability. The key to security in industrial mercantilism is capacity for manufacturing. Even though industrial mercantilism is a concept that can address the foreign policy behaviour of aid-recipient countries which seek industrialisation through foreign aid, it has never been studied from that particular angle. Industrial mercantilism was always regarded as an exclusive policy and behaviour for developed countries. Theorists and policy makers at the time of the Industrial Revolution, similar to many of today's political economists, believed that industrial mercantilism is the foundation for economic growth and survival of the state.



Many renowned scholars have asserted that industrialisation is necessary for economic development and self-sufficiency. In recent times, most countries which established rapid economic growth went through the experience of industrialisation. Therefore, in order to find solutions to aid dependence, poverty and economic underdevelopment, one must examine why some countries fail to escape the “no-industrialisation trap” (Murphy, et al., 1989, p. 1004). After the critical juncture of diplomatic normalisation, Korea entered the path of industrialisation and escaped this trap.

4.3.1 The breakthrough: From reparation to economic cooperation

The negotiations between Korea and Japan began in 1951. In the initial rounds, financial restitution was the main contentious issue (Lee, Hyunjin, 2008, p. 73). The first three rounds of negotiation took place under the Rhee administration (1951 – 1958) and were deadlocked because the gap was too wide between the amount of money Korea asked for and what Japan was willing to offer. Moreover, Japan asked for claims for reparation which provoked Rhee and the Korean population to fury. In a 1952 meeting, Korea demanded \$2.7 billion in claims, but Japan was ready to offer only \$70 million, which, according to Japan, took into account \$2.3 billion of Japanese foregone properties and assets left in Korea. In 1953, pro-imperialist statements by Kubota Kanichiro angered the Korean negotiators,⁷⁴ and the talks between the two countries were postponed *sine die*. They only continued when Park resumed negotiations after the coup.



In contrast to the two administrations before Park, industrialisation was the hallmark of Park's regime. In an autobiography, Park explicitly notes that "I want to emphasize and re-emphasize that the key factor of the May 16 Military Revolution was to effect an industrial revolution in Korea" (Park, Chung-Hee, 1963, p. 259). In addition, his memoirs, published in 1979, begin with his declaration: "Economic development and modernisation have been the single most

⁷⁴ In the third round of negotiation (6 October 1953 – 21 October 1953), Japan was still asking for the right to claim Japanese assets in Korea. When Kubota Kanichiro was asked by his Korean counterpart whether he thought that Japanese and Koreans had equal opportunity to accumulate the wealth under Japanese occupation, Kubota answered "when it goes to details, we cannot finish the story. Capitalist system treated them equally for the last 36 years" and he added "Korea would naturally have been occupied by some other country (if it were not Japan), and would have experienced a more miserable situation than under Japanese rule" (Ahn, Soyoung, 2008, p.163; Cha, 1996, p.131). This speech inflamed the anger of Koreans and the third round came to an end. Korea and Japan did not have further negotiations until 1958 due to his remarks.

important object of the Korean government over the last decade or so” (Park, Chung-Hee, 1979, p. 7). His rule began with his successful coup in 1962 and ended with his assassination in 1979; during this time, industrialisation was the keynote of his regime.

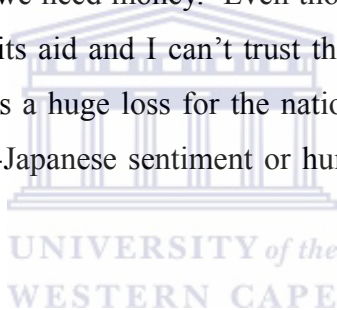
When examining the rhetoric in the presidential election campaign in 1963, which took place a year before the diplomatic normalisation, Kim Hyung-A (2003a, p.89) points out anti-flunkeyism⁷⁵ against the US has two priorities: “Korea-first” and “economy-first”. In *Nation, Revolution and I*, which was published a few days after Park announced his presidential candidacy two years after the coup, Park points out that 52 per cent of the national budget in 1961 was US aid and so Koreans must understand that the US therefore has 52 per cent of a voice in Korean domestic affairs. Park perceived the high degree of aid dependence on the US as being a threat to Korea, as Korea’s government would instantly close down if US aid were withdrawn (Park, Chung-Hee, 1963, p.22).

In order to carry out the first Five Year Plan, \$426 million was asked for, but only 30 per cent of the target was met by the end of 1964 (Kim, 2008, p. 137). In addition, the US aid was in decrease. Against this backdrop, selecting alternative source for aid, Park preferred bilateral aid because he believed that bilateral aid would be easier to restrict donor intervention than multilateral aid given by international financial institutions (Kim, Jiyoung, 2013, p. 20). Among potential bilateral donors, Park’s regime selected Japan as potential source of foreign aid for the sake of economic development, because Korea’s economy was closely connected to Japan’s and

⁷⁵ Anti-flunkeyism refers to the sentiment of people in small countries which resists becoming a servant nation of a bigger nation. Kim, Hyung-A (2003b, p. 131) notes that Kim Il-sung’s *Juche* ideology in North Korea also has the notion of anti-flunkeyism in it but there is no evidence that the elite in Korea was influenced by the *Juche* ideology.

monetary compensation was expected from Japan following diplomatic normalisation (Yoo, Byong-Yong, 2009, p. 35). Park thought very highly of Japan. Moreover, many core members of the elite who determined economic policy, such as Park Choong-Hoon and Kim Chung-Yum, who had been educated in Japan, felt likewise; they regarded Japan as a model that Korea should learn from and replicate. In addition, Park felt that Korea should enter the Japan-centred Asian regional model designed by the US for the security and economic growth of Korea (Chung, Jina, 2011, p.97). Indeed, Park's regime announced its willingness to rebuild the severed diplomatic relationships with Japan only a week after the coup. Park said;

“more than anything else, we need money. Even though the US helps us, I can't expect that the US would double its aid and I can't trust the US. But we can demand money from Japan justifiably. It is a huge loss for the nation if anyone destroys that financial source in the name of anti-Japanese sentiment or humiliation” (Lee, Do-Sung, 1995, p. 31).⁷⁶



Park's search for money, especially for industrialisation, was recognised by the US as well. According to a US government document on the Korea-Japan negotiations, the US was acknowledging the challenges and possible breakthrough as:

“ROK animosity stemming from thirty-five years of Japanese rule in Korea was long the chief obstacle; ROK claims were ridiculously high. The new ROK military regime, however, is interested in an early settlement because *General Pak needs money for his ambitious development program* (emphasis added)” (Document 255, 1962).

In the fourth round of negotiations, Japan's new Kishi administration proposed an important step forward by withdrawing their own repatriation claims and by apologising for Kubota's

⁷⁶ Quoted in Kim Hyung-A, 2004, p. 94.

statements. Kishi also needed to get the treaty signed. Before the upcoming election, he had to resolve the Peace line⁷⁷ issue, and he was aware that successful negotiation with Korea would give him a bigger leverage in upcoming negotiation with the US. The fourth round is important because from then onwards, the negotiation was taken over by top-level officials in the state elite, rather than hands-on staff.

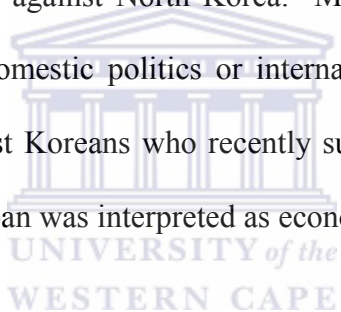
Korea and Japan disagreed vehemently over the terms and interpretation of reparation, which were the biggest impediments to any progress on negotiations. As Ahn Soyoung (2008) elaborates, through her close examination of Japanese assembly records, the reparation issue was a matter of national sentiment to Korea and to Japan. The breakthrough, as she correctly points out, came from the change of the meaning and purpose of compensation: from ‘reparation’ to ‘economic cooperation’. This was a ground-breaking conceptual shift initiated by Park’s government in the sixth round of negotiations in 1961. The Kim Jong Pil⁷⁸-Ohira meeting, which practically concluded the negotiations successfully, mainly addressed economic cooperation and how to expedite that process. Following the change of emphasis to economic cooperation rather than reparation, the two governments agreed on a \$300 million grant for economic cooperation and \$2 billion in low long-term and low-interest loans.⁷⁹

⁷⁷ The Peace line, which was also called the Rhee line, was unilaterally declared by Korea’s Rhee administration in 1952 when the Korean government was angered by Japanese passive participation in Korea-Japan negotiation. Instead of the international norm of three miles, Rhee announced that its territorial waters extended for 60 miles offshore around the Korean peninsula. In 1952, Korea arrested around 1,000 Japanese fishermen crossing the 60-mile line which provoked Japanese public opinion and politicians to fury.

⁷⁸ Kim Jong Pil was the second-in-command in the coup and became Prime Minister under Park after the coup.

⁷⁹ The Korean government used anti-normalisation protest as a means to increase its bargaining leverage in the negotiation (Yoon, Tae Ryong 2008).

On the subject of why the conceptual shift from compensation to economic cooperation did not take place before Park, Lee Hyunjin (2008, p.83) suggests two reasons. First, before Park, the Japanese economy was too immature to offer any type of economic cooperation, and second, Korea was receiving a large amount of US aid in the 1950s. The Rhee administration did not need to approach Japan at the risk of losing legitimacy because it was able to survive with US aid. The top priority of the first administration was to maximize US aid and not to get economic cooperation from Japan or any other country. To fulfil the need for US aid, Rhee could simply use the anti-Communist sentiment against North Korea. Moreover, economic development is less of a concern to Rhee than domestic politics or international diplomacy (Kim, ChanJin , 2009, p. 36). In addition, for most Koreans who recently suffered under Japanese occupation, any economic cooperation with Japan was interpreted as economic submission to Japan.



However, the key members of the elite, notably newly recruited technocrats participating in the negotiation process with Japan, saw industrialisation rather than more aid as a way to the survival of nation. For instance, Kim Chung-Yum participated in the negotiations from March 1964 as a representative member for compensation claims and was in charge of negotiating with Japan on cooperation in economic development. He was one of the elite who was recruited in the reverse brain drain and had studied economics in Japan and the US. Kim was one of many ardent industrialists who saw the future of Korea's economy in a Japanese model of export-oriented industrialisation, Heavy and Chemical Industries (HCI), and ultimately in high-tech industry; he did not see any benefit in import substitution industry (Kim, Chung-Yum, 2006, p.145). After the negotiations onwards, he played a significant role in designing Korean

economic policies under Park's presidency, and held the positions of Minister of Finance, Minister of Commerce and Industry, and Chief Presidential Secretary. He was the longest-serving Secretary with nine years and three months working under Park. Chang Ki-Young, another critical and influential technocrat, led the behind-the-scene negotiations at the final stage of the normalisation deal, and he shared the belief in industrialisation for economic development (DongA Ilbo, 1964, p. 1). After signing the treaty with Japan he was appointed as Vice Prime Minister and Minister of Economic Planning Board and he drove the export-oriented industrialisation, backed by the President in the beginning of Korea's industrialisation era (Kim, MyeongSoo, 1999, p. 51).



4.3.2 Reinforcement: Money for building a steel mill

Diplomatic normalisation with Japan provided Korea with the financial capital and technology needed to complete the first Five Year Economic Development Plan (FYEP). As a result, Korea succeeded in transforming its national industry basis from agriculture to light industry. The path of industrial mercantilist foreign policy reinforced the pursued path based on the frame of industrial mercantilism. The next important event concerning foreign economic policy and economic development took place when Korea aimed to restructure its industry again. On this occasion the reinforcement shaped the path from light industry to heavy and chemical industry (HCI) based on the second FYEP.

The construction of Pohang Steel Company (now POSCO) and a petrochemical complex were two core projects of the second FYEP (1967-1971). In 1967, eighteen companies from the US,

Britain, West Germany, and Italy formed the Korea International Steel Association (KISA).⁸⁰ They secured funding for the projects, and helped negotiations between the Korean government and donor entities including the International Bank for Reconstruction and Development (IBRD), Export-Import Bank of the United States, and the Government of the respective countries. Unfortunately, however, the international environment did not favour building steel mills in developing countries, following failed projects in India, Turkey, Mexico and Brazil. Despite KISA's efforts, the likelihood of Korea building a steel mill seemed very slim at the end of 1968. Because of this, Park asked Kim Hak-ryeol,⁸¹ an influential technocrat who led a drive towards heavy-chemical industry at the front line as Vice Prime Minister and Minister of the Economic Planning Board, and Kim Chung-Yum to discuss the possibility of cooperation with Japan in building a steel mill (Kim, DongHo, 2012, p. 139). This request was made at the second Cabinet Meeting between Korea and Japan in August 1968. The three-day meeting mainly focused on asking for cooperation from Japan. The Korea representatives emphasised that Japan had been excluded from KISA due to anti-Japanese sentiment in Korea, but Japanese cooperation with the much-needed steel mill project would turn national sentiment towards Japan, which would benefit Japan as well (Kim, Chung-Yum, 2006, p.175). Ohira, the Japanese counterpart did not agree to cooperate, but accepted Korea's offer to send an investigation team to Korea. In the meantime, the International Economic Consultative Organisation for Korea (IECOK) and the Export and Import Bank of the US sent official confirmation that they would not support the

⁸⁰ France joined the Associates later.

⁸¹ Kim Hak-ryeol, a member of the first generation of technocrats, was educated in Japan and started his career in government after passing the government exam. But soon after he went to the US to study economics in a graduate school in the US. He was invited to Park's regime after the latter's stay in the US and he worked as one of the most influential technocrats who restructured Korea's national economy (Choi, UJik, 1972, pp. 96-99)

steel mill project in April 1969 and May 1969, respectively.

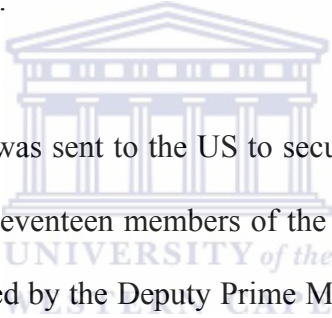
Finally, in December 1969, Korea and Japan signed *the Basic Treaty on Integrated Iron and Steel Mill between Korea and Japan*. The biggest concern was over the economic viability of the project. In order to decrease the input cost, the Korean government proposed to bear the cost of building infrastructure such as a port, roads, and railways around the steel mill. Another funding obstacle arose from the original agreement which indicated the purpose of funding by Japan. The funds were originally intended for the agricultural sector, only. However, after several rounds of negotiations with Japan, the Korean policy makers succeeded in nullifying the original stipulation on the purpose of the funding and as a result, the funding could be used to build the foundry (Hong, Hasang, 2005). In addition, Park decided to use most of the \$300 million granted by Japan plus another \$200 million in loans; this was agreed at the 1965 treaty on building the mill in order to minimize pressure on the Korean government's budget. This was not an easy political decision in a situation with many conflicting priorities for compensation money. Many interest groups deservedly asked for government compensation to be paid from the money from Japan; they included those who lost private assets under Japanese rule and those whose assets were damaged by the rearrangement of the Peace Line which was part of what the Korean government gave to Japan in the normalisation negotiation. It is well-known in Korea that before Park announced the decision to spend the money from Japan not on compensation but on building the steel mill, he said: "let's consume later and invest first" (Kim, Chung-Yum, 2006, p.173-179).

Early in 1973, Park announced HCI policy as a foundation of the fourth republic. The future of

exporting light industrial goods began to look unattractive as labour costs in Korea were on the increase and developed countries were strengthening restrictions on importing labour-intensive goods from developing countries. The Park administration selected the six main strategic industries: steel, chemical engineering, nonferrous metal, machinery, shipbuilding, and electronics. The sole criterion for selection was the spill-over effect, horizontally and vertically. In his New Year's press conference in 1973, Park announced that "to achieve our target of \$10 billion annual export by 1980, the share of HCIs should account for more than 50% in total exports" (Park, Chung-Hee, 1980). In addition to the need to replace declining light industry exports, there was another industrial mercantilist ambition against the backdrop of the heavy chemical industry policy. Military provocations from North Korea in the late 1960s were on the increase but the US announced that it would gradually withdraw its troops in 1971-1974. Also, the truce in the Vietnam War provoked a sense of urgency among the elite in Korea concerning the need to build a national defence industry; this was impossible without HCIs.

The new economic policy direction was driven by technocrats both from the engineering and economics disciplines. Industrialisation was at the top of the national agenda for the state elites. Most Korean elites regarded the Japanese model of economic development from light industry to HCIs, as being a model for Korea to follow (Kim, Yong-Jik, 2005, pp. 458-9). Nam Dukwoo was Minister of Finance when Park officially launched the HCI strategy in 1973, and he recalled Park's response to his worries about difficulties in securing finances for building HCIs: "Japanese leaders were defeated and collapsed at the war against the World, but they got up and emerged as economic power of the World. There were HCIs behind Japanese revival. Mr Minister, lets pull it off, come what may" (Nam, Dukwoo, 2009, pp. 107-8). Nam Dukwoo was

another influential technocrat who served as Vice Prime Minister and Minister of the Economic Planning Board and was in charge of raising foreign financial capital. Between 1974 and 1979, he raised \$11.2 billion, representing 74 per cent of the total external financial capital raised during Park's regime. According to Nam Dukwoo (2009, p. 126), government's intention in obtaining foreign capital was to build HCIs and social overhead capital (SOC). Between 1970 and 1979, the average GNP growth rate of Korea was 9.3 per cent, and for that growth rate, an investment rate of 28.1 per cent of investment rate was necessary. However, the domestic savings rate reached only 22.9 per cent and the balance of 5.2 per cent came from abroad in the form of loans or foreign investment.



In May 1973, a promotional team was sent to the US to secure foreign capital to cover the new HCI plan. The team consisted of seventeen members of the elite from government, enterprises, media and academia and was headed by the Deputy Prime Minister.⁸² They believed that if they failed to raise \$5.8 billion in foreign capital, then the HCI plan was unachievable. They regarded their mission as a “do or die” operation (Nam, Dukwoo, 2009). The promotional team tried to convince investors in the US and Japan to send an investor mission to Korea. In November 1973, the government held an international conference under the title ‘Korean Futures’ which aimed at boosting investment confidence among foreign investors by informing them of the high levels of stability and predictability prevailing in Park's Youshin state⁸³ (Kim, Hyung-A 2003a,

⁸² The members of the team included the Chief of the HCI Planning Corps (O Woncheol), Director of the Korea Institute of Science and Technology (Han Sangjun), Chairman of Hyundai Construction (Chung Inyoung), and six high-ranking economists from the Economic Planning Board.

⁸³ Youshin means “to fix” in Confucianism. In October 1972, Park amended the Constitution to “Youshin” Constitutions which concentrated all three powers of legislation, administration and judiciary onto the President. Despite the efficiency of the Youshin system regarding economic planning and implementing, the concentration of

pp.183-4). The Korea-American Economic Council was established in September 1973 as an outcome of the Conference and \$3.1 billion was raised between 1973 and 1975. Foreign direct investment (FDI) during the period reached \$415.3 billion (Han, Sŭng-jŭ, 1974, quoted in Kim, Hyung-A, 2003a, p.184).

Once the path of industrialisation was defined, it became more stable with fewer difficulties than first envisaged compared with the initial stage of setting up or changing the path. Later, the fourth FYEP (1977-1981) needed another \$10 billion of foreign capital to build nuclear power plants. The Korean investment mission went on a 16-day visit to the US, France, Britain and Switzerland in May 1976 to raise the money. The visit was a big success, raising \$5.8 billion without any real difficulties. This level of success was beyond the imagination of the Korean elites in economic diplomacy in the 1960s and in the early 1970s. Nam Dukwoo recalls the success was possible because of detailed preparation by members of the mission and also because of the favourable international economic environment. However, the main success factor was that the international community was willing to lend money to Korea which was already regarded as being on a stable upward path of economic growth (Nam, Dukwoo, 2009, p.161). In the following year, 1977, the investment mission went on a second visit to raise the rest of the funds needed for the fourth FYEP, and this was another success, achieved relatively easily. The Korean government secured enough capital to carry out the fourth FYEP and build a nuclear power plant to meet the increased power demand.

In 2012, POSCO was producing more than 39 million tons of steel, making Korea the world's fifth largest steel producing nation (Kim, HoKyeong, 2013). The steel produced in POSCO helped Korea to become the leading ship builder in the world, the second largest supplier of electric home appliances and the fifth largest car manufacturer (Hong, Hasang, 2005). POSCO was built using technology supplied by Japan as part of the foreign aid package in 1968, and now POSCO is supplying technology of building steel mills to other developing countries.⁸⁴

4.3.3 Expansion: Institutionalising industrial mercantilism

The elite in Korea saw the workforce as a critical economic resource for industrialisation or manufacturing. To establish successful industrialisation, the workforce needs manufacturing skills. The elite therefore focused on educating people to acquire technical knowledge and mechanical skills. However, as a developing country, Korea lacked not only financial capital but also technology for industrialisation. The technology would be brought in from abroad along with the financial capital. In the initial stage of industrialisation the elite tried to rely on the relatively limited skills of the workforce to run machines for light industry. However, once steps were taken to educate people, they adopted higher levels of skill. This process was encouraged by building technical schools and legislating a high status for technicians.

1. Kumoh Technical High School

In a New Year's Speech in 1973, Park announced a full-scale drive towards HCIs and said that

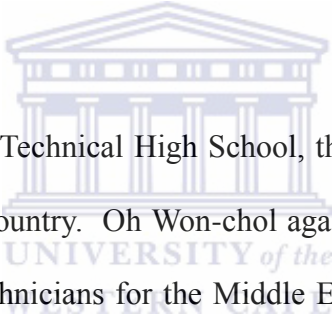
⁸⁴ On 25 July 2013, POSCO signed an MOU with the Cameroonian government concerning passing down its technology on building a steel mill (POSCO, 2013).

“to accomplish a \$10 billion target of annual export by 1980, we should make an utmost effort to learn and develop technology at a nation-wide level. This means everyone—by everyone I mean children in primary schools, university students, men, women, the young and the old—should learn technology” (Park, Chung-Hee, 1980).

Oh Won-chol,⁸⁵ the Vice Minister of Commerce and Industry who participated in Korea-Japan Cabinet Meetings from the initial stage, proposed opening a technical high school with funding from Japan. This suggestion was submitted to the Fourth Cabinet Meeting between Korea and Japan held between 21 and 23 July, 1970. Japan agreed to send an inspection team to Korea. During the ten days of inspection, the Korean government representatives explained the need for a technical school that could offer hands-on training, focusing on mechanics, so that the graduates could work in that field upon graduation from the school. As a result, a grant of \$3.1 million from Japan was assigned to build the school (Maeil Business Newspaper, 1971). Kumho Technical School was duly built with training rooms, laboratories, and a dormitory. Korean teachers were sent to Japan for training and eight Japanese teachers were dispatched for hands-on training in casting, welding, machinery, heat treatment, forge welding, and wooden modelling with newly imported machines from Japan. The Japanese teachers lived in school housing until they produced the first graduate, after three years. Tuition, textbooks and uniforms were offered free of charge and every student stayed in the student residence at no cost. As a result, outstanding students from across the nation applied for the Kumoh Technical High School. In 1976, out of 400 freshmen of the school, 126 were middle school valedictorians with the highest marks in their schools. They were poor, but very clever and eager to learn more, to become a

⁸⁵ Oh Won-chol was later appointed as Chief of the HCI Drive Committee.

pillar of nation building (Park, Cheol-Seo, 1977). Four hundred students were accepted each year and learned about machines, tin plate welding, metal-work, and electronics. Two years after the foundation of the school, some students obtained a mechanic's licence, and by graduation, every student from the first class had been awarded that licence. Kim Chung-Yum (2006, p.415) remembers that it was a moment proving "Korean boys also can be outstanding mechanics when trained well." This success broke down feeling of inferiority towards Japan, held not only by the Korean elite but by Korean people in general. After three years of education, graduates of the school were obliged to serve as a technical non-commissioned officer for five years, for the country.



Inspired by the success of Kumoh Technical High School, the government opened eleven more technical high schools across the country. Oh Won-chol again proposed to open more technical schools to secure the supply of technicians for the Middle East construction boom.⁸⁶ President Park said that to secure deals with the Middle East,⁸⁷ Korea needed at least 1 million technicians to send, and to meet the demand Korea needed more technical schools and training centres. He believed that "export, in the end, is what people do. If there are more support (from big enterprises for technical schools), we will have great engineers and scientists in future. ... They are the frightfully strong foundation of industrialisation and they will be the national

⁸⁶ Korean construction companies began to enter the Middle East market in 1974 and won contracts valued at \$ 260 million. In the following year 1975, the value increased by 226.3% to \$850 million. However, Korean companies lacked enough technicians in the fields of engineering construction, oil refinery, and chemical plants to send to the Middle East. Kim Chung-Yum (2006, pp.415-419) notes that 1,600 more technicians were needed around 1975.

⁸⁷ Around that time, Korea won a number of contracts in Middle East countries because of skilled labour combined with cheaper bidding than Western countries.

power....When they go to working in the field (after graduation), they are the national power” (The Kyunghyang Shinmun, 1977). Indeed, graduates from the eleven newly founded technical high schools played a critical role in mitigating the impact of oil crises in the 1970s in Korea; this was largely because of the remittance of the oil-money they earned in the Middle East. Kim Chung-Yum (2006, p.415) argues that they were the industrialising seeds planted in the industry-free land of Korea, and without them, there would be no HCI in Korea.

In addition to opening a technical school which could produce high-grade technicians, government opened tertiary training schools to produce entry level technicians, with one year of training. Recipients of technical education and training participated in the International Vocational Training Competition⁸⁸ which was better-known to the Koreans as the Technical Olympics. Winners of that Competition took part in a car parade from the airport to the Blue House where the President stayed. President Park awarded badges and had tea and snacks with the recipients. They were treated like national heroes, similar to winners of the Olympic Games.

2. National Technical Qualifications Testing System

Traditionally, Koreans have held scholars in high regard and technicians were regarded as ranking lower than scholars. Choi Hyeong-Sup, Minister of Science and Technology, thought that good engineers could not be produced in a social environment where technicians were looked down upon. Thus, he proposed the National Technical Qualifications Act to place the

⁸⁸ The International Vocational Training Competition was first held in Spain in 1950 with the aim of “rais(ing) the status and standards of vocational skills and training worldwide.” It was held annually till 1971. Today, the competition changed its name to WorldSkills Competition and is held every two years in a different Member Country. Currently 50 countries/regions are members of WorldSkills International, which organizes the competition (Worldskills International, 2009).

status of engineers as high as scholars in Korea, especially in the mind-set of people. The new Act took effect on December 1973 and the National Technical Qualifications Testing System was implemented in 1975. President Park was especially keen on the Test and personally appointed the Head of the Institute for Testing. The fundamental purpose of the new Act was to improve the social status of technicians. The Act stipulated that Master Mechanic could enjoy the same social status as people at the top of other fields such as the professions and academia. For instance, candidates who passed the Craft II Class Qualification Test were exempted from mandatory military service and those who passed the Craft I Test could go to a technical college to concentrate on improving their theory and management skills as opposed to concentrating on technical issues (Kim, Chung-Yum, 2006, pp. 421-422).

At the beginning of 1975, eighteen fields were open for the Test. These were machine, metal work, chemical engineering, electricity, electronics, telecommunications, ship building, aircraft, civil engineering, construction, textile, mining, information management, energy, land development, ocean, safety management and industrial application. Qualification holders were prioritised in employment and for promotion in government. Financial benefits and opportunities to learn in abroad were also given to qualification holders. Since the Act was first enforced in 1975, there have been nineteen revisions to date. Although the Test is often criticised for lagging behind the speed of technology advancement in the applicable fields (Lee, Sangjun, 2006), in the beginning, the National Technical Qualification Testing System played a critical role not only in restructuring the national economic structure but also in restructuring people's conception of mechanics and crafts.

In summary, this section examined how the critical juncture of industrial mercantilist foreign policy change was reinforced and stabilised the path toward aid independence. Once the critical juncture was made, industrial mercantilism expedited its pace and expanded to higher levels of industrialisation and to more people. It took place on the reinforced path through subsequent and successful aid negotiations and through building new institutions which put technology and technicians first. Based on this, the next section of the thesis introduces the political economy of industrial mercantilism.

4.4 The Political Economy of Industrial mercantilism

4.4.1 Industrialising Elite

Various analyses exist regarding the main drive of Korea-Japan normalisation. For instance, Kang Junman (2004) argues that modern Korean political and economic history is a result of opportunism. According to Kang, Korea as a nation could not help but be opportunistic given its geopolitical conditions. The opportunism was deeply seated in Park's foreign policy attitudes as well. Kim Sundong (1987) also argues that securing political funding was a big motivation for the normalisation in a newly launched military regime (Yoo, Byeongyong, p.48). However, Kim Hyung-A (2004) disagrees with that viewpoint. According to her, political funding was secured through Japanese private sponsors and therefore there was no need to normalise national relations for that purpose. According to her, the normalisation was sought to secure fund for industrialisation. Findings of the thesis which were garnered from examining the background and development of the path of industrialisation in Korea are in accordance with Kim Hyung-A's view: elites in Korea saw foreign aid as a tool for industrialisation. No matter whether

industrialisation was for building the wealth and power of a nation or for the survival or prosperity of the elite themselves, at the end the elite can aptly be labelled the industrialising elite

Industrialisation is a process led by those who seek changes and gains by restructuring industries. The process of industrialisation cannot happen unless driven by a minority in the elite group. Various scholars have examined the industrialising elite and gave this group various names. The term ‘Industrialising elite’ should not give the impression that they are benevolent or nurturing. Thus, the industrialising elite can encourage industrialisation for their own personal greed. Olson (2000), in his posthumous book *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorship*, suggests the notion of “stationary bandit” as a type of tyrant. Stationary bandits emerge in the primordial stage of an economy before the market stage.⁸⁹ The stationary bandits encourage economic activities of people and protect them against anarchy or roving thieves only because they are benefited by doing so. Even though the intention is self-greed, stationary bandits play the role of industrialising elite by building and restructuring the national economy.

The “developmental elite” of Johnson (1987, p. 140), who coined the term “developmental state,” can also be the industrialising elite in the thesis. According to his description, the developmental elite share the core values of the industrialising elite:

Developmental elites are generated and come to the fore because of the desire to break

⁸⁹ He suggests two conditions for a market, which are sufficient to bring prosperity to a society: (1) secure and well-defined individual rights which can be generated by good governance; (2) absence of any kind of predation such as war, autocracy, or lobbying.

out of the stagnation of dependency and underdevelopment; the truly successful ones understand that they need the market to maintain institutionalised corruption while they are battling against underdevelopment. The Republic of Korea is an excellent example.

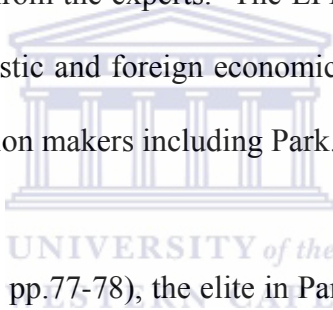
Political systems created by developmental elites are normally stable in the long run and also authoritarian. The quasi-authoritarian political monopoly of the developmental elite ensures long-term predictability of their economic system, because of political stability. For the developmental elite, authoritarianism is a means and not an end. Developmental elites, often rig their political monopoly, but are legitimised not by their political processes but by their economic results (Johnson, 1987, pp. 142-3). In that light, the industrialising elite share features of “benevolent dictators” who allocate taxation for financing productive public expenditure under conditions of political stability (Barro, 1991a; 1991b). Based on his study on Korea’s industrialisation under Park, Kim Gwanghee (Kim, 2008, pp. 363-364) also concludes that authoritarianism and successful industrialisation are indispensable. He attributes the successful industrialisation to Park and the technocrat elites for they did not follow American advice blindly and took the risk of conflict with the US in design and implementing economic policies.

According to Kerr’s explanation of the industrialising elite, industrialisation is led by a “dynamic elite” who pushes the expansion of new technology through “transient instruments of transformation” against a “static minority” who do not wish to move in the new direction (Kerr, 1960, p.58). According to his categorisations (pp.58-81), there are five types of industrialising elite. First, in an open market country such as England, a rising middle class, which is economically individualistic and self-interested can lead industrialisation. Second, in a paternal country, the dynastic elite will guide industrialisation. One example is that of the Samurai

during the Meiji Restoration in Japan. The dynamic elite acknowledge the transformation of the economic structure and try to keep the change under their control. Third, the colonial administrators can become the industrialising elite if they transform the production structure of the colonized economy. However, the industrialisation led by colonial administrators is commercial-benefit-oriented rather than manufacturing-oriented. Fourth, revolutionary intellectuals can push industrialisation in the process of transforming toward a centralised country in order to gain political and economic power from traditional elites. Here, industrialisation is put at the foreground of a revolution. It is not only a means of overthrowing old ideas and embracing new ones but also of purging old elites and replacing them with new disciplined ones. Fifth, a national leader can motivate industrialising sentiments in the population but this does not necessarily guarantee successful industrialising strategies and plans. The hereditary elite, independence heroes or military commanders can fall into this fifth category. Examining these five types of industrialising elite within a historical time frame, it is apparent that the middle class, dynastic elites and colonial administrators led industrialisation before World War I. However, after World War II, industrialisation has mainly been led by revolutionary intellectuals and national leaders.

Although Park took power by military coup, his long personal rule provided the consistent commitment and predictability needed for industrialisation. In particular, the promulgation of the *Yushin* constitution, which led to his personal demise and assassination, offered strong stability for the heavy and chemical industries in the 1970s. Cumings (1984, p.29) refers to Park's regime as a "bureaucratic-authoritarian industrialising regime" where "strong states direct economic development." Park created development oriented and autonomous bureaucrats to

fulfil his development goals and Kim Suweon (2009) refers to this as “developmental bureaucracy.” Those developmental bureaucrats were selected on the basis of merit and they received elevated status and good salaries. Most importantly, their autonomy in policy-making was secured in exchange for their loyalty and performance. Experts were either recruited from elsewhere or selected through examination results but in both cases, merit was the criterion. Even politicians involved in making economic decision were trained by experts. This is in agreement with Haggard’s (1991, p.869) view that the development of administrative capacity should precede economic reforms. In Korea, the Economic Planning Board (EPB)⁹⁰ was where decision makers received training from the experts. The EPB was the *de facto* decision making venue and controlled overall domestic and foreign economic policies. It was also the centre of economic training for the top decision makers including Park.⁹¹



According to Kim Hyung-A (2004, pp.77-78), the elite in Park’s regime consisted of technocrats and former military generals and they shared three distinct characteristics: first, they were highly qualified and self-disciplined; second, they stayed within their own areas of responsibility and

⁹⁰ The Economic Planning Board was originally a creation of the second administration. The ‘super ministry’ that oversees other ministries copied the Indian Planning Commission which was in charge of planning and utilising resources according to the prescribed plans (Planning Commission Government of India, n.d.).

⁹¹ The role of the EPB has been relatively well studied in economic policy literature. It played a role in educating political decision-makers through weekly (or monthly) meetings. As much as its political authority was centralised, the main feature of Park’s government in terms of development planning was “*the centralisation of economic decision-making*” (Haggard, 1991, p.857) and this was represented by the Economic Planning Board (EPB). The super ministry exercised oversight taking over the budget bureau from the Ministry of Finance, the statistics and research bureau from the Ministry of Home Affairs, and the planning and coordination offices from the MOR. In terms of efficient economic growth through industrialisation, and bearing in mind that that Korea suffered from lack of resources and capital, the government’s role in securing and allocating these was critical (Kim, Jyong-Dong, 1988, p. 212). Therefore, the EPB which was in charge of aid relations through the Bureau of International Cooperation became “the dominant bureau” in the early 1960s (Haggard, 1991, p.860).

did not encroach on Park's political governing territory; and third, they had a clear understanding of the national development agenda. Even though this summary by Kim is fairly convincing, her account only focuses on their function and characteristics. In order to understand the background to industrial mercantilist perception by members of those elite, one needs to look more deeply and include consideration of their background.

When examining the general background of the elite in Park's regime, some common features of the industrialising elite become apparent. First, the industrialising elite did not share any common interest with established privileged groups. The coup members, most of whom were from rural areas, did not have any attachment to established interest groups from the previous regimes, either emotionally or practically, which was possible through land reform. Referring to Kerr's categorisation of industrialising elite, this lack of attachment caused the elite to be a combination of dynastic, revolutionary and nationalistic industrializers who were eager to change the structure without the motivation of maintaining the status quo. The continuous restructuring implied the continuous progress of the elite group and to achieve this, they, rightfully or wrongfully, manipulated nationalism within the population.

Another common feature shaping the elite's perception of industrial mercantilism is that they had a degree of international experience that affected their world view on economic development. Many members of the elite were systematically recruited from abroad to work in government or government think tanks. Scholars and bureaucrats shaped the concept of economic development in Korea, having participated in international conferences or having studied abroad. Many

influential elite members⁹² had opportunities to participate in the Colombo plan⁹³ and in the United Nations Economic Commission for Asia and the Far East; there, they learned about other Asian countries' economic development. Most Asian countries, except Arab countries, set and launched 'economic development plans' in the 1950s and the Korean elites were influenced by these. In addition, most bureaucrats appointed to set up economic development plans in the late 1950s had studied in the US.⁹⁴ Some economists had also experienced Western education⁹⁵, and around 6 000 high ranking soldiers had been educated in the US by the end of 1961. In addition, many members of elite were influenced by Japan. Many of the leading members of the elite were trained either in Japan or by the Japanese. They felt comfortable dealing with Japanese books and ideas since many of them were educated during the Japanese occupation and were familiar with the Japanese language and the Japanese way of developing the national economy. Indeed, most books on economic development written in English were later translated into Japanese in Japan; the Korea elite imported them from Japan even when the two countries' diplomatic relations were frozen (Park, Tae-gyun, 2007, pp. 45-48).

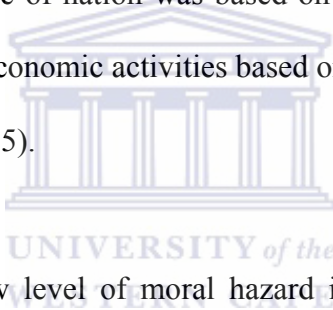
⁹² In Taesik, Kim Yoochack, Lee Gihong, Song Insang, Song Jungbum, Hwang Byeongjun, Choi Gyuha, Cheon Byeonggyu, and Lee Hanbin.

⁹³ Right after Truman's announcement of Point 4 program of technical assistance in January 1949 member countries of Commonwealth gathered in Colombo, a capital of Sri Lanka (then Ceylon). This meeting launched the Colombo Plan which in the beginning called for cooperation between developed and developing countries (van de Walle, 2001, p. 191).

⁹⁴ Cha Gyunhee (Wisconsin University), Lee Jaeseol (Missouri State University), Kim Dongsu (Michigan State University), Lee Gihong (Columbia University), Lee Hanbin (Harvard Business School), Kim Chung Yum (the Federal Reserve Bank of New York), Song Jungbum (the Chase Manhattan Bank), Song Insang, Cheon Byeonggyu, Kim Taedong, Jeong Jaeseok, Lee Heeil, Jang Deokjin, Kim Jongdea, and Song Jeongbum (Economic Development Institute of the World Bank)

⁹⁵ Tak Heejun (Oxford University), Go SeungJe (Columbia University), and Hong Seongyoo (Minnesota University)

The elite in Korea were not only influenced by Japan, but also by Western Germany to some degree. The argument in favour of planned economy was based on the West German model. Intellectuals in Korea equated the ideological and physical division between East and West Germany with the division of their own, and thus, it was only logical for South Korea to follow the model of West Germany. The West German model was viewed as a combination of free enterprise and a government-controlled planned economy (Kim, Hyung-A, 2003b, pp. 125-126). The West German model is in line with Korea's development plan of guided capitalism of Park's regime in the early 1960s. The development plan which reflects the ideas and perspectives of elite on development and the future of nation was based on guided capitalism; i.e. government directly or indirectly guide major economic activities based on free and creative entrepreneurship (Kim, Gwanghee, 2008, pp. 124-125).



Finally, there was a relatively low level of moral hazard in handling foreign aid among the industrialising elite in Korea. Even though corruption and cronyism in allocating foreign aid were in place, the level of moral hazard among elites was relatively low compared to other aid recipient countries. The elite in Korea comprised one ethnic group, which is often overlooked in single case studies of Korea, and this fact should be noted as a source of a high level of nationalism which prevented serious moral hazard. In addition to the ethnic homogeneity and nationalism, a sense of crisis caused by unilateral announcement of cutting aid to Korea by the US also played a role in preventing moral hazard. The US aid to Korea which was \$ 383 million in 1973 dropped to \$154 million in 1961 when Korea was still utterly dependent on US aid for its survival, and this pressured the elite in Korea to reduce aid dependence and to develop its own national development plan (Kim, Jiyoung, 2013, pp. 18-19).

4.4.2 Industrial mercantilism

In common with most poor countries, foreign aid was always sought after, and this applied to the second administration of Korea as well. However, the search for aid in previous regimes can be distinguished from the search in Park's regime; the difference is that before Park, the aid was sought for distributing to the political inner circles not for industrialisation. The politically connected inner circles received windfall gains because they were allocated hard currency to buy imported goods and they resold these goods at a higher price to the domestic market. This type of "corruption" was the cause of the coup by Park's military regime. On the contrary, in Park's regime, foreign aid was sought for industrialisation. Industrialisation was "the central theme" of the Five Year Economic Development Plans from 1962 (Koh, Yong-Sun, 2010, p. 20). One episode shows the search for industrialisation of the regime before the Korea-Japan normalisation. Two weeks after the coup, the government arrested thirteen leading businessmen for accumulating wealth in illicit ways under previous regimes. Instead of putting them in jail or collecting fines, the government asked them to invest the illegally earned money in fourteen key plants including steel, cement and fertilizer plants.

Cha (1996, p.129) held personal interviews with the former Foreign Minister Lee Tong-won and ambassador Park Sang-yong, who participated in negotiations for the Normalisation Treaty with Japan, and discovered that the objective of negotiation was national economic development and the Korean participants were "single-mindedly" committed to that goal throughout the negotiations. Park strongly believed that the mission of his generation was to reunify peacefully

with North Korea and that necessitated a strong nation founded on economic power (Kim, Chung-Yum, 2006, p.549).

Support for industrial mercantilism by the elite in foreign aid policy making is essential for aid independence to be achieved; industrialisation is critical for sustained economic growth. After a long period of despair and stagnation, the economy in Korea turned upwards from the early 1960s. Growth was spurred by industrialisation. Output in the manufacturing sector grew annually by 17 per cent in the 1960s and 16 per cent in the 1970s (Kim & Koh, 2010) as Table 4.1 shows.

Table 4-1. Growth rate by industry in Korea

	1953-1960	1960-1970	1970-1980	1980-1990	1990-2000	2000-2009
Agriculture, forestry and fishing	2.3	4.4	1.6	3.5	1.9	1.8
Mining and manufacturing	12.1	15.7	14.1	11.4	8.2	5.3
Mining			4.7	-0.2	-1.3	-0.3
Manufacturing	12.7	16.8	15.8	12.2	8.4	5.4
Light industry			12.7	7	1.1	-0.6
HCIs			17.2	14.4	9.8	6.6
Public utilities and construction	9.3	19.2	10.3	10.3	2.7	3.3
Public utilities			15.8	17.6	10.3	5.8
Construction			10.1	9.7	1.4	2.6
Services	3.8	8.6	6.8	8.4	6.1	3.6
Gross Domestic Product	3.8	8.4	9	9.7	6.5	3.9

Source: Bank of Korea from Kim and Koh (2010)

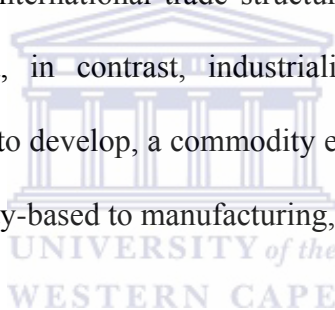
According to the renowned development political economist Chang Ha-Joon (1996, p. 57), to deny the importance of industrialisation is to show “lack of understanding of the logic of long-

term structural change.” Aid independence is possible in an economy experiencing sustained economic development. Starting with List (1904, p. 144) who emphasises that “the power of producing is ... infinitely more important than wealth itself”, like numerous renowned scholars, such as Rostow (1960), Apter (1965), Murphy, Shleife, and Vishny (1989), Chang (2003) has asserted that industrialisation is both necessary and sufficient for economic development and self-sufficiency. The spill-over effect of industrialisation effectively promotes overall development (Sen, 1984). Exportation of raw commodities such as cocoa or cotton cannot provide sustained economic development because industrialised countries continue to advance their input-saving technology (Woo, 1990). Exporting natural resources such as oil and gold does not lead to sustained economic development because this is merely the exchange of future capital for current capital. Wells and Thirlwall (2003) examine the correlation between the growth rate of GDP and the growth rate of a manufacturing sector in 45 countries in Africa during 1980 to 1996 and find that Africa’s economic backwardness correlates with the low level of development of the manufacturing sector. Writers on development generally agree that industrialisation is a prerequisite for economic growth and has the following merits.

(a) Breaking the declining terms of trade syndrome

Raul Prebisch (1950) and Hans Singer (1950) produce two independently published studies that put forward a similar argument for a syndrome in which terms of trade decline or become less favourable in the Third World. Put simply, Prebisch and Singer argue that poor countries rely mostly on exporting commodities to, and importing final products from, industrialised countries. Poor countries have to sell increasing quantities of commodities to pay for the same amount of imports, due to failure to advance their own technology rapidly and also because of low elasticity

in demand. Technology progresses faster in industrial products than in commodity production; one example is progress from the type-writer to the computer and to a better-performing computer. In order to buy these increasingly advanced industrial products, commodity exporting countries have to sell more and more of their commodities. In addition, consumption of more advanced industrial products increases in accordance with income level, which means high elasticity. For example, a person starting to earn money will buy a bicycle instead of walking. As the income level increases, that person will upgrade to a motorbike, a car and then a more luxurious car. However, more income does not mean more consumption of corn or cotton, i.e. low elasticity. Therefore, in the international trade structure, the terms of trade for exporting commodities become worse and, in contrast, industrialised countries can demand more favourable terms. Thus, in order to develop, a commodity exporting country must transform its economic structure from commodity-based to manufacturing, through industrialisation.



(b) Externalities from coordinated investment

Rosenstein-Rodan (1943) argues that if various sectors receive investment ‘simultaneously’, those sectors create demand for goods from each other. Therefore, this demand spill-over will yield income in every sector. If the sectors receive investment simultaneously, they all produce income by supplying each other. Murphy, Shleife, and Vishny (1989), in their analysis titled *Industrialisation and the Big Push*, claim that coordinated investment increases income and welfare. A coordinated investment can be more effective when sectors share a infrastructure, which suggests a role for government in the process, and they cite Korea as a case of a successful and coordinated investment programme. Until a country has established this coordination, it will not be easy to escape “the underdevelopment trap” (Rodrigues-Clare, 1996), where both wages

and the rate of return on capital are low.⁹⁶ Low wages cannot offset the low rate of return on capital, and so it is unrealistic to expect any influx of private foreign or domestic capital. Thus, these writers argue that a ‘big push’ from non-profit funding is needed in order to make the coordinated investment simultaneously. The big push approach represents the pro-aid arguments and originates from the view that industrialisation is “*the way of achieving more equal distribution of income [emphasis original]*” between poor and rich countries (Rosenstein-Rodan, 1943, p. 202).

(c) A means to modernisation

Industrialisation is an interesting phase, according to a modernisation theory. According to Apter (1965, p. 67), development, modernisation, and industrialisation are related to one another in a descending order. Development includes both modernisation and industrialisation. Modernisation, as “a particular case of development” includes industrialisation which is “a special aspect of modernisation.” A society can be modernised without industrialisation but the opposite does not always apply. Indeed, the West was the origin of modernisation through both commercialisation and industrialisation. In contrast, the modernisation of Africa is mostly a product of commercialisation but lacking industrialisation. Industrialisation, as “the period in a society in which the strategic functional roles are related to manufacturing,” is so dynamic and powerful that it changes a traditional society to a modernised one.

⁹⁶ Rodrigues-Clare does not use his underdevelopment trap argument to justify the need for foreign aid. He introduces the concept to reconcile the automatic mechanism of a neoclassical growth model, i.e. to answer the question—how can the market pull all poor countries out of poverty?

(d) Building state capacity

Industrialisation needs a government capable of coordinating. Government can learn and build those capabilities while planning and implementing industrialisation. Industrialisation and its socio-economic effects require a government to play an extended and complex role. As many renowned scholars mention and as empirical evidence shows, from the eighteenth century Britain to the twentieth century Korea and China, no country has gone through high growth rate of productivity without strong government interventions during the period of industrialisation (Chang, 2003; Murphy, et al., 1989).⁹⁷

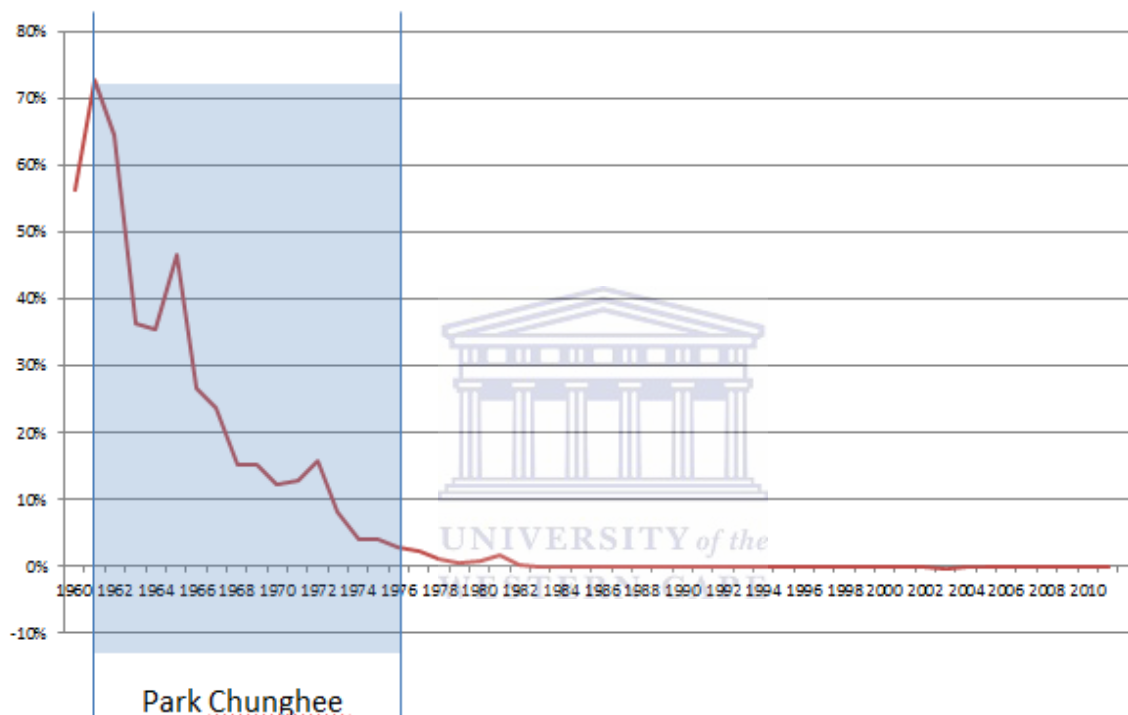
4.4.3 The contradictions of industrial mercantilism

A number of pundits criticize the diplomatic normalisation between Korea and Japan in 1963 on various grounds. For example, they claim that the treaty removed rights from the Korean people and, instead, gave them a distorted value system that claims that the end justifies the means. The normalisation was against the people's will and confused them, leaving the perception that economic supremacy comes before national consciousness (Chung, Jina 2011, p.99). Chung Il-Joon (2005, p. 95) also states that the normalisation opened "abnormal" relations between Korea and Japan. It was carried out in a way similar to a military operation, without taking account of national sentiment. It failed to remove the burden of colonial history and became the starting point of a new abnormality for Korea-Japan relations. However, one cannot deny that the Korea-

⁹⁷ However, for the economic liberals, states should not be involved in industrial structural transformation, and the optimal restructuring takes place through a market mechanism. State intervention only deters the industrialisation and diminishes prosperity. For structuralists, industrial structural transformation is a product of manipulation of the international and domestic core class—the owners of the means of production—in order to make itself richer.

Japan normalisation was a critical juncture of Korea's foreign policy and economic restructuring as shown in Figure 4-1.

Figure 4-1. Aid dependence Korea



The ratio of total ODA and Official Assistance to Gross Capital Formation
 Source: World Bank Indicators (2012)

On the subject of aid negotiations by Korea, Alice (1989, p.94) notes that Korea used foreign credit for two purposes: first “to finance its long-term investment”; and second “to borrow its way out of balance-of-payments crises in order to maintain its long-term growth trend.” What is obvious is that, even when the money is spent on servicing outstanding debt, the ultimate goal of servicing debt was to maintain a long-term growth trend instead of simply keeping a better

balance of payments to help in securing future loans.

The first successful restructuring of the national economy was mostly funded by financial capital from the normalisation. The Korean government embarked on a second restructuring to develop HCIs on the path of expedited restructuring and aid independence. Despite concern about over-investment in and over-borrowing for HCIs in a developing country such as Korea, in November 1982, exports by HCIs accounted for more than half of Korea's total export for the first time (Maeil Business Newspaper, 1982). With the benefit of hindsight, investment in HCIs in the early 1970s was a good strategy aimed at achieving a dynamic comparative advantage. On 17 July 2013, the world's biggest container vessel, which was bigger than four jumbo jet planes and as tall as a 20 story building, made its maiden voyage from South Korea to Poland. Altogether 60,000 tonnes of steel were used which was enough to make more than eight Eiffel Towers. This was one of twenty of those ships exported to Mearsk in Denmark, and they cost \$190 million each (Macguire, 2013). The ships were made in and exported from Korea. Without the elite's perception of industrial mercantilism in the 1960s and the tedious efforts to negotiate for building POSCO and developing HCIs in the 1970s, these container vessels would not have been built in Korea. In 2012, HCIs account for more than 90 per cent of total exports from Korea as seen in Figure 4-2.

Figure 4-2. Korea's export by structure in 2012

By Structure	Share (%)
Primary industry goods	2.7
Industrial Products	97.3
Light Industrial Products	6.4
Heavy Industrial Products	90.9
Total	100

Source: KITA⁹⁸ (2013)

In opposition to the myth of Park as a leader who made the Korean miracle, Park Tae-gyun (2007, pp.380-381) argues that any other man in the presidential office in the 1960s in Korea would have devised similar policy, bearing in mind the pressure from the US and demands from the Korean people. Even though his military style seemed efficient at the beginning of the economic growth that followed his coming into power, his assertive implementation was not based on concessions and yielded huge costs in the aftermath. These included corruption and inefficiency in allocating projects as well as subsidies between politicians and businessmen. In addition, government support for a few selective enterprises created *chaebol*. Rigid and inflexible financial management oppressed growth of a competitive financial sector. It is true that Park and his elite's "unselfish" leadership was committed to industrialisation and hence aid independence; consequently Korea made enormous economic progress during his rule. However, it is also true that his leadership was obviously flawed (Kang, 2002, p. 62). Park was

⁹⁸ Available at http://stat.kita.net/top/state/main.jsp?lang_gbn=null&statid=kts#none

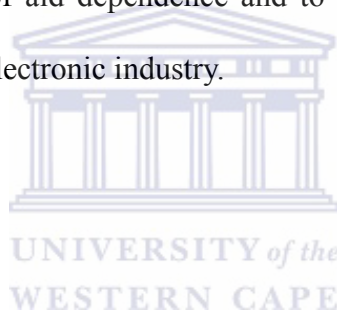
inaugurated for seven consecutive terms as president, and he ruled for nineteen years (1961-1979). When the Constitution limited his term in office, he amended it. Anyone who stood against his will went to jail and many labour activists who fought for better working conditions were tortured and killed.

4.5 Conclusion

This chapter examined the path of aid independence of Korea. The elite in Korea was surrounded by threats that shook the legitimacy and survival of themselves such as strong North Korea which outpaced South Korea in terms of economic growth and industrialisation, the pressure from the US for economic growth, drastic aid cut from the US, and domestic demand for a strong state. The elite perceived reparation money owed to Korea in exchange for diplomatic normalisation with Japan as a solution to these threats. This shift to normalised relations with Japan became a critical juncture in Korea's path to aid independence through industrialisation. Thus, the thesis defined the elite as an industrialising elite with an industrial mercantilist perspective. The case study of Korea in this thesis does not attempt to answer the question whether Park was a benevolent dictator or bureaucratic authoritarian (Yoon, Bangsoon, 1992; Choi, Jangjip, 2002/2009). Regardless of the answer, his long rule of almost two decades played a positive role in Korea's economic development.⁹⁹ When the elite have an industrial mercantilist perception of foreign aid, then that aid can help sustained economic growth and

⁹⁹ The impact of Park's rule on the history of Korea's democracy is not as positive as that on economic development and it has been very controversial. However, this thesis limits its range to his leadership on developing the economy and building an efficient bureaucracy.

independence from aid. According to Barro's cross country examinations (1991a; 1991b), the elite had a positive attitude to economic growth because they could maintain political stability and commit to financing more productive public goods. Foreign aid, in this situation and with the industrialising elite, can spur economic growth by supplying the necessary financing for productive goods and by reducing the taxation distortion (Boone, 1996). Park's lengthy rule was accompanied by the like-minded elite who served beside him and who were insulated by a newly amended Constitution; this allowed the industrialising elite to plan, implement, evaluate, and re-plan long-term economic development. Repetitive and continuous economic planning cycles allowed Korea to pull itself out of aid dependence and to transform from agriculture to light industry and finally to heavy and electronic industry.



Chapter 5 Ghana, indebted mercantilism

This chapter examines Ghana's foreign policy change towards the International Monetary Fund (IMF) in 1983. Even though it was a dividing event in the history of Ghana's post-independence foreign policy, Rawlings's foreign policy redirection toward the IMF was not an unprecedented event in Ghana. On the contrary, flirting with the IMF was common since the Nkrumah era due to Ghana's chronic capital deficiency (Hutchful, 1987, pp.3-19). Nkrumah approached the IMF and the World Bank, but the Bank did not reach agreement with Nkrumah for he refused to adopt IMF policies. The ensuing rightist Busia government enjoyed relatively cordial relations with the IMF and introduced a set of austerity measures to Ghana. However such measures almost instantly brought in a military coup in 1972 led by Lieutenant Colonel Acheampong, who immediately reversed the IMF's austerity measures including the currency devaluation (Acemoglu & Robinson, 2012, p. 67). The dormant relations with the Bretton Wood Institutions were revived again between 1978 and 1979, but soon after, these were destroyed by Rawlings in the June 4 uprising in 1979. The Peoples National Party (PNP), headed by Limann made an attempt to rebuild relations with the IMF. However, the Limann government, haunted by the tragic end of the Busia regime and lacking political power, could not make breakthrough in the stalemate of negotiations with the IMF (Gyimah-Boadi, 1993, p. 3). When Rawlings took power, the PNP's pro-West approach led to dissatisfaction within its leftist support base and this helped Rawlings's second military coup. Ironically, Rawlings, despite his initial disparaging views and remarks on the neo-imperialist IMF, "opened a new era of close co-operation" with the IMF (Jonah, 1989, pp. 94-95). Rawlings's return to the IMF made a decisive line in independent Ghana's foreign policy since it was the first serious abandonment of ideological orientation in foreign policy.

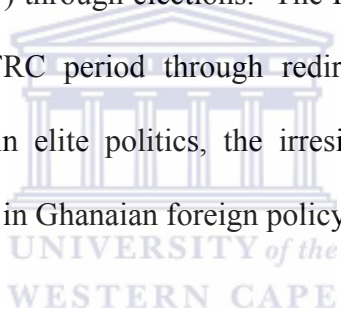
After a brief overview of Ghana's foreign policy history, this chapter introduces the initial conditions to the critical foreign policy change toward economic pragmatism. Alternative foreign policy options and domestic conditions that faced the elite in Ghana are examined in the section followed by an analysis of the elite in Ghana. Then the chapter investigates the critical juncture of the foreign policy change and elaborates on how the path of aid dependence was reinforced. Based on this examination, the thesis finally attempts to describe the political economy of the elite perspective of Ghana: indebted mercantilism.



5.1 Ghana before Rawlings: A brief history

The history of Ghana's post-independence foreign policy can be divided into two phases: from independence to 1983 and from 1983 up to the present. In the first phase, the locomotive of Ghana's foreign policy was idealism. In other words, Ghana's foreign economic policy played "second fiddle" to its foreign political policy (Boafo-Arthur, 1999, p.73). If one considers Nkrumah's serious attempts to build the political kingdom as first priority, it was inevitable for Ghana to start with a politically biased foreign policy. In addition, the nature of the regime after Nkrumah reinforced the political inclination of Ghana's foreign policy direction. Throughout its independent history Ghana was one of the "elite-politically unstable countries" (Fosu, 2009, p. 4). Between independence in 1957 and 1981, Ghana saw eight regime changes and five of them took power unconstitutionally through military coups and counter coups. The foreign policy of a new regime was always counter to the policy of the previous regime to establish the legitimacy

of a military coup regime. When Nkrumah, the first prime minister and president of independent Ghana and his Convention People's Party (CPP), was toppled by the National Liberation Council (NLC) by means of a military coup, the NLC and the successive regime of the Progress Party (PP) turned the course of foreign policy towards being pro-West.¹⁰⁰ However, when the PP regime was violently replaced by the National Redemption Council (NRC) in 1972, the pro-West ideology was targeted and foreign policy was readjusted to the demands of the new military regime. The NRC was toppled by a military coup by Rawlings's Armed Forces Revolutionary Council (AFRC) in 1979, but the socialist Rawlings regime gave way to Hilla Limann's pro-West People's National Party (PNP) through elections. The PNP tried to win support back from the West after the short-live AFRC period through redirecting Ghana's foreign policy.¹⁰¹ Besides the domestic instability in elite politics, the irresistible dynamics of the Cold War exacerbated the ideological swings in Ghanaian foreign policy.

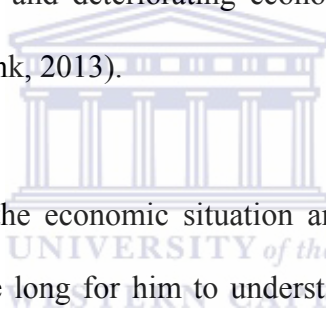


Foreign policy biased toward political idealism, partly, resulted in downward economic growth in Ghana. Nkrumah's rule sowed the seeds of future indebtedness by choosing policies calling for large government spending socially, monetarily, and internationally. The so-called "big-push" policy for industrialising Ghana's economy, with international support for Pan-Africanism, and welfare oriented local policies led to huge deficits. The foreign reserves of \$269 million in 1957 dropped to a negative level of minus \$391 million when Nkrumah was ousted in 1966

¹⁰⁰ The PP under Busia in 1969 undertook the Rehabilitation Programme led by the IMF. However, it did not have any significant impact on spurring economic growth despite the 30 % devaluation of the currency which took place as part of the Programme (Boafo-Arthur, 1999, p.78).

¹⁰¹ The AFRC was in power for three months from June to September 1979. Despite its short period in office, the AFRC sent strong anti-capitalist signals.

(Frimpong-Ansah, 1991, p. 87). The subsequent military regimes of the NCL did not make any economic progress either. Coupled with the NCL, the civilian regime of Busia's PP changed the notion of economic policy orientation away from socialism and carried out devaluation of its currency, based on the advice from the IMF. However, this policy change led to economic difficulties and invited another military coup in 1972 (Fosu & Aryeetey, 2008). In the 1970s, the end of the global commodity boom and the oil crisis led to a "lost decade" in Ghana's economic history. Ghana's economy which was mainly dependent on the export of commodities such as cocoa, mineral and timber was hit hard.¹⁰² The growth rate of the 1950s fell by half in the 1960s from 4.1 per cent to 2.1 per cent and deteriorating economic growth hit minus 0.3 per cent between 1970 and 1981 (World Bank, 2013).



Rawlings was discontented with the economic situation and took office with a strong leftist rhetoric. However, it did not take long for him to understand the global economic impact on Ghana's economic situation (Antwi-Danso, 2013). The second phase of Ghana's foreign policy began in 1983 with a foreign policy shift towards the West by the Rawlings regime. Since then, foreign economic policy, instead of foreign political policy, has been pursued in an overly aggressive way as a central goal of foreign policy of Ghana. At the start of his rule, Rawlings's foreign economic policy was ideologically similar to Nkrumah's. However, in 1983, the Provisional National Defence Council (PNDC) of Rawlings redirected its foreign policy and turned to the Bretton Woods Institutions, the initially proclaimed foe of the regime. Since 1983 the main objective of foreign policy of Ghana has been economic pragmatism rather than

¹⁰² Cocoa exports of Ghana fell to 159 000 metric tonnes in 1983 from 382 000 metric tonnes in 1974, and mineral exports fell by 54% in 1983 from 1975 (World Bank, 1987).

political ideology.

5.2 Initial Conditions

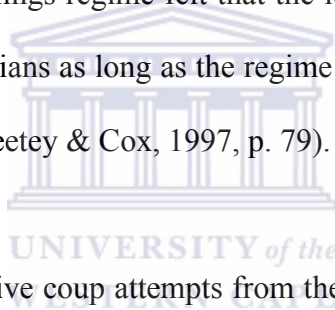
This section examines the initial conditions when Ghana had alternatives in its aid-seeking foreign policy, before it reached the critical juncture of embarking on a series of negotiations with the IMF and the World Bank. The initial conditions should be understood from a global political economic context of the declining Cold War, the end of a commodity boom, the international oil crises, and the emerging influence of globalisation. In addition, the regional and local environment should be taken into consideration; these include factors such as influx of more than one million expatriates from Nigeria, droughts and the consequent crop failure. In addition, not only factors related to the period as such should be considered, but also historical factors. Toye (1991) argues that the combination of historical factors such as a defective development strategy since Nkrumah, exacerbated corruption and economic mismanagement in the 1970s, and the external shocks in the early 1980s led Ghana to agree to the Economic Recovery Programme (ERP) which was introduced by the IMF. Against this background, in what follows the thesis investigates local conditions facing the elite prior to the foreign policy change and other foreign policy options Ghana had before the juncture (foreign policy shift towards the IMF).

5.2.1 Declining popularity

The support Rawlings enjoyed in the initial stage of his rule was from the urban population and the support waned as time passed. The instant support that Rawlings won with his charisma during the AFRC period began to decrease (Chamlee-Wright, 1997, pp. 84-85). There were a number of events that caused the fall in popularity of the Rawlings regime, including involvement of PNDC members in a brutal murder case of three judges; this damaged the legitimacy of the PNDC. However, the main priority was the economy; socio-economic hardship shook Ghana's political stability. In fact, the economic situation that the PNDC inherited was already "acute economic insolvency" (Jeffries, 1990, p. 163). When Rawlings took power, inflation had been as high as 150 per cent in the two previous years and foreign debt had reached \$1.6 billion (West Africa, 1982, p. 627). Concerns existed from the beginning of the coup about the record low level of foreign reserves and the high probability that international aid institutes could withdraw aid. Just after the coup, the Rawlings regime wishfully announced that "none of the countries and agencies which have been offering aid to Ghana over the past two years will be so foolish as to draw back now" (West Africa, 1982, p. 67).

Rawlings toppled the previous civilian regime citing their economic inaction and so he needed to show results promptly to regain lost popularity. Ghana needed money and macro-economic constraints were felt harshly in the everyday life of Ghanaians. Indeed, hunger became part of daily life. Half of the urban population and two thirds in the rural areas lived below the poverty line. In 1983, income per capita hit the lowest point in the history of independent Ghana, \$185 (World Bank, 2013). In 1983, the worst droughts in Ghanaian history aggravated the situation (Fosu & Aryeetey, 2008). Food production was severely affected and increased the demand for

food imports. Basic items such as bread and sugar disappeared from markets. Government did not have money to pay their employees. Some state-owned factory workers were offered factory products for payment (Shillington, 1992, p. 73). Moreover, Nigeria expelled approximately 1.2 million Ghanaians in the midst of the worst economic situation in Ghana. This meant that the government had to deal with an influx of 10 per cent of the population adding additional stress to the job market. However, the regime clearly did not have a developmental strategy for Ghana's already struggling economy. After the six months of an *ad hoc* and punitive economic policy of Rawlings's regime, the situation became worse, and "there was no money even to print money" (Hansen, 1987, p. 192). The Rawlings regime felt that the ideological legitimacy of the regime was the least concern of the Ghanaians as long as the regime achieved economic results possibly through receiving foreign aid (Aryeetey & Cox, 1997, p. 79).



Furthermore, there were five abortive coup attempts from the inauguration of Rawlings until the foreign policy change in 1983. Rawlings and the ruling elite were "in considerable danger of losing political control" from an elite politics perspective (Chamlee-Wright, 1997, p. 85). However, despite the threat caused by the coup attempts by the opposing political elite, Ghanaian civil society was tolerant with the new Rawlings regime, and there was less domestic pressure from this sector of society and this allowed a wider margin of policy leeway that included the adoption of reform programmes as a condition of aid (Jeffries, 1990, p. 162; Levitsky & Way, 2010, p. 301).

5.2.2 Alternatives: The Eastern bloc

The economic plight that Rawlings and the elite inherited put them in a constant search for foreign capital from the beginning of the regime. At first, it was the Eastern bloc to which the elite in Ghana looked for much-needed financial support. In fact, even before Rawlings took power in 1983, foreign relations in the Rawlings regime did not start smoothly, especially with Western countries. When Rawlings succeeded in his first coup in 1979, he executed a number of former leaders of Ghana in public in the name of 'House Cleaning'. These episodes gave his regime a bad reputation and extremely negative responses from Western countries and neighbouring African countries followed. Britain was the first country that condemned the House Cleaning as "an odious mix of secret trails and public executions", and most Western countries including the US, France, Canada, and Germany warned Rawlings that economic sanctions could be imposed if further executions took place (Okeke, 1982, pp. 55-56). In addition, the neighbouring countries, Upper Volta, Togo, and the Ivory Coast raised concerns as well. Upper Volta instituted a food embargo, cutting the meat supply to Ghana, and Nigeria stopped the oil supply.¹⁰³ Nevertheless, after the second coup, Ghana's foreign policy theme under the new Rawlings regime remained consistent regarding commitment to the Organisation of African Unity (OAU) and support to the African National Congress (ANC) and South West People's Organisation (SWAPO), even though Ghana's foreign policy toward African countries or entities was not a top priority in the minds of the ruling elite in Ghana (Boafo-Arthur, 1993, pp. 136-7).

¹⁰³ Shehu Shagari, the President of Nigeria, had a close friendship with Ghana's Limann who was overthrown by Rawlings. However, Shehu Shagari was later also overthrown through a military coup by General Muhamadu Buhari on 31 December 1983. The two new military leaders in Ghana and Nigeria came to share similar perspectives and close relations with each other.

The most significant change to Ghanaian foreign policy was turning to the Eastern bloc and away from the West. In his second public speech after the coup on January 2, 1982, Rawlings announced that Ghana's foreign policy would be "non-aligned" and the regime sought "friendship and co-operation with all countries regardless of ideology" (West Africa, 1982, pp. 71-76). However it was the persistent Ghanaian version of non-alignment again; his nominal neutrality meant leaning toward the Eastern bloc in practice. Even though Rawlings never claimed explicitly that he was a socialist, his regime began by claiming to be socialist oriented. This orientation came from his support base. Initially, leftist thinkers in the University of Ghana were key advisers to the regime. The June Fourth Movement (JFM), of which Rawlings was Chairman until the December coup in 1983, was a militant leftist group inspired by the Cuban revolution. Hence, it was just a matter of time before the military PNDC restored diplomatic relations with radical countries, once it took office from the pro-West PNP government. Diplomatic ties with Gaddafi's Libya, which had been severed by the PNP, were immediately restored and new diplomatic missions were opened in Cuba and Bulgaria while the Ghanaian government was closing down twelve other diplomatic missions due to budget constraints. The PNDC expanded diplomatic relations with the former German Democratic Republic, Ethiopia, China, Mozambique, Nicaragua, and Romania. This expansion was not only in the political field but also economically and culturally, and a revolutionary cadre was sent for military training to Eastern European countries and Cuba (Boafo-Arthur, Kwame, 1999, pp.81-86).

However, international communist comrades were embroiled in their own domestic troubles and the world was heading to the end of the Cold War. Ghanaian diplomatic missions who visited

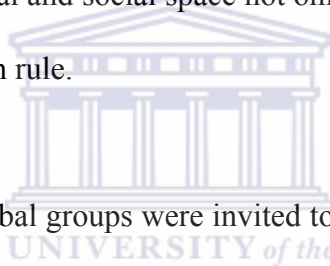
the Soviet Union to get financial support came back empty-handed but with advice that Ghana would be better off seeking help from the IMF. Rawlings and the PNDC needed money to maintain political power and to resolve unprecedented economic challenges in Ghana, but the Eastern comrades proved to be unavailable to help. In addition, the Ghanaian elite were witnessing another change. Socialist African countries, such as Tanzania and Guinea were going through economic inactivity, whereas capitalist African countries such as Kenya and the Ivory Coast seemed to become prosperous. In the eyes of the Ghanaian elite the latter seemed to be the model that Ghana should emulate.

Consequently, “the most appealing option” left for Rawlings was to turn to the IMF, the body formerly labelled neo-colonialist (Boafo-Arthur, 1999, p.83). As there was no other obvious option, a Ghanaian writer argues that foreign policy change in 1983 was imposed rather than chosen (Antwi-Danso, 2013).¹⁰⁴ However, a closer look at the process of negotiations with the IMF, which will be discussed in the following parts of the chapter, discloses the opposite. Ghana’s foreign economic policy in 1983 was indeed a chosen direction by the Rawlings regime. The Ghanaian elite chose capital instead of restructuring its economy, and the choice still has a far-reaching effect on the path of aid dependence. Looking at foreign aid policy of Ghana as a choice of the elite in Ghana, the next question to be raised in order to understand the policy would be who the decision-making elite were.

¹⁰⁴ Senior Research Fellow, Legon Centre for International Affairs and Diplomacy. Interview conducted in Ghana, 24 May 2013.

5.2.3 The elite in Ghana

This part of the thesis examines the elite who chose the foreign policy in Ghana in 1983. In order to set the scene for the examination, it is of importance to understand the historical context of the elite in Ghana, and it dates back to the period of the Gold Coast colony. In 1901, the British created the Gold Coast colony and laid the foundation of the modern state (Haruna, 2001, p. 113). British colonial policy in Ghana was based on indirect rule. Studying the elite in Ghana in 1966, Kerstiens (1966, p. 66) noted the indirect rule policy of colonial Britain had “far-reaching consequences even to our time.” Even today the direct and indirect consequences of the colonial policy are affecting political and social space not only in Ghana but also in most African countries which experienced British rule.



In the colonial era, the Chiefs in tribal groups were invited to colonial institutions as “advisers in the decision-making that affected national or tribal affairs” and thereby became perceived as elites (Kofi, 1973, p. 97). Based on Nadel’s (Nadel, 1956, quoted in Kimbel, 1963, p. 139) definition of an elite as “a stratum of the population which, for whatever reason, can claim a position of superiority and hence a corresponding measure of influence over the fate of the community”, Kimble (1963, p. 137) argues that in the Gold Coast a new elite emerged in the late 19th century. The new elite group was “dependent on non-traditional sources of income, set patterns of social behaviour in the towns, and from time to time exerted a strong political influence upon rural Chiefs.” They were educated ‘natives’ produced by the needs of the British government for assistance to become clerks instead of farmers. These educated natives experienced the periods of aspiration and alleviation of Africanisation in the 1920s and the periods of abandoned aspirations during the world economic slump, and by the end of the 1920s,

became a noticeable leading group with wealth and influence (Kimble, 1963, pp. 87-140)

Around the time of independence, according to Svanikier (2007, pp.119-124), three new types of political elite emerged in Ghana. The first was the neo-traditional elite who were close family relatives of traditional chiefs.¹⁰⁵ British policy aimed to co-opt them to the British side by putting them in a British education system. The second type was families of coastal merchants who could afford to send their children to study side by side with the children of chiefs. As education and occupation became new determinants of social status, demand for education increased and, around this time for the first time in Ghana's history, educated commoners with university graduate degrees emerged as a political elite; they became the third type of Ghana's new political elite and was a significant and leading group around the time of gaining independence. After the election in 1954, more than 50 per cent of the members of the Ghana House of Assembly were from this third category of Ghanaian elites: the new elite.¹⁰⁶

However, even though the new elites emerged at independence, it is doubtful that the new elites or the next generation of the new elites played a decisive role in Rawlings regime due to the chronic brain drain and the magnitude of its impact on the formation of the Ghanaian elite. Ghana had been suffering a chronic brain-drain since the Nkrumah era. Many capable Ghanaians chose to leave the country for political and economic reasons. Before Rawlings's

¹⁰⁵ Rathbone (2000, p.12) explains that using the term "chief" rather than "king" originated from colonial convention which diminishes Africa and justifies British kings rule over African chiefs.

¹⁰⁶ According to Bottomore (1964, p. 100) after the election in 1954, 29 % of members in the Ghana House of Assemble was school teachers, 17% was clerks and accountants and 18 % held other liberal professions.

time, Ghana's professional upper and middle classes had left the country in a general exodus.¹⁰⁷ When Nkrumah decided to embark on socialism, he realised that "you can't build socialism without socialists" (Rooney, 1988, p. 139). Thus he commenced the task of indoctrinating young people in the party with socialist ideology. Nkrumah appointed his ideological comrades to high posts in government, which was a natural move according to his logic; in order to transform Ghana into a socialist society, a person subscribing to socialist philosophy should take a post rather than more practical and qualified non-socialists. This practice of making political appointments later brought about a severe brain drain that hurt Ghana's international competitiveness. Even though the government introduced an "Exit Permit Bill"¹⁰⁸ in November 1963, a significant number of the most senior civil servants left Ghana by 1966, including the Executive Secretary of the Economic Commission for Africa and the Deputy Secretary-General of the Commonwealth Secretariat. Some of them left Ghana because appointments to important government posts were based on political ideology or loyalty, and some left because they felt their lives were threatened by Nkrumah's displeasure with them (Omari, 1970, p. 107).

Unfortunately the era of Nkrumah was only the beginning of the outflow of highly educated Ghanaians. Ghana experienced five coups before Rawlings took power in 1981 as seen in Figure 5-1, and those coups and counter-coups expelled many capable senior government officials. In addition, political corruption, rent-seeking, and the economic plight continued and were sometimes aggravated in the successive regimes. More and more Ghanaians, especially those

¹⁰⁷ During 1975 to 1981, around 14,000 trained teachers left Ghana (Jeffries, 1990, p. 160).

¹⁰⁸ In order to prevent the exodus of highly educated Ghanaians, Nkrumah introduced the Exit Permit Bill which meant that Ghanaian intellectuals could only get out of Ghana with government permission (University of Ghana, 1994, p. 39).

with skills that the international market required, sought “exit options” by choosing to join the brain drain (Leith & Söderling, 2003, p. 35).

Figure 5-1. A coup chronology in Ghana

1957	Independence (Nkrumah)
1966	Coup (Kotoka/Afrifa)
1969	Return to civilian rule (Busia)
1972	Coup (Acheampong)
1978	Coup (Akuffo)
1979	Coup (Rawlings, first)
1979	Return to civilian rule (Limann)
1981	Coup (Rawlings, second)

Source: Made by the author based on Ghana’s political history

Due to the chronic brain drain, in the beginning, the Rawlings regime failed to attract competent people into senior and critical posts in its administration. For instance, it took many months to recruit for the key positions in the Ministry of Finance and Economic Planning (Agyeman-Duah, 1987, p. 618). However, Rawlings, instead of reversing the trend, accelerated an already serious brain drain in Ghana by choosing violent populism instead of addressing fundamental political and economic problems. Many activists and a number of experienced senior elite fled into exile, avoiding the bloody revenge that Rawlings carried out in the name of House Cleaning (Nugent, 1995, p. 95). When the PNDC came to power, during the worst economic crisis in Ghana’s history after independence “those Ghanaians with genuine marketable skills to offer, including doctors, lawyers, engineers, teachers and administrators, voted with their feet” (Toye, 1991, p.

154).

The expatriated professionals or elite are of importance not only because they negatively affect the pool of capable human capital at a high level of the economy and bureaucracy, but also because they became an epicentre of criticism toward the regime. In Ghana, those drained brains became “the most sustained critics” of Rawlings’s regime (Brydon & Legge, 1996, p. 22). The forced or voluntary exiles such as Chris Atim from the left and J. H. Mensah, a Finance Minister in the Busia regime formed various groups criticising Rawlings’s regime, and one of those groups was the Ghana Democratic Movement (GDM) based in London. However, even though the GDM advocated a return to civilian rule against Rawlings’s military regime, it did not mean to be constructive in terms of the economy or politics of Ghana and, rather, most of critiques from the expatriated elite were “ethnically charged and blatantly racist” (Brydon & Legge, 1996, p. 22). This type of verbal attacks by Ghanaians living outside affected the elite perspective of threat; those critiques became part of constructing the enemies within.

(a) Jerry John Rawlings

Flight Lieutenant Jerry John Rawlings, the coup leader and the political leader of the Rawlings regime, wanted to be a pilot from as young as six years old. He finished school in 1966, the year when Nkrumah was ousted. In 1967, at the age of twenty, he signed up as a Flight Cadet to pursue his dream and was promoted to Flight Lieutenant in 1978. He, like most Ghanaians, encountered the deteriorating economic conditions in the era of the Acheampong regime when he was an Air Force officer; a wage of a middle ranking military officer did not match rampant inflation and pilots had to stop practicing due to lack of fuel and airplane parts. Rawlings, who

expressed the “desire for action to right injustice”, became involved in planning a coup to overthrow the corrupted Acheampong regime as did many other middle-ranker officers around that time (Shillington, 1992, p. 37). This was when he first encountered the leftist university students criticising the government. Finally, in 1979, he led his first but abortive coup.

The purpose of the coup, Rawlings claimed, was to create a chance for a dialogue with top-ranking military command but this did not happen. The coup failed and he was put on trial late in May of the same year. Rawlings was still unknown to the public but the failed coup and the following trials made him famous. During the trials, he emerged as a hero with integrity who called for the release of his men and who accepted full responsibility. Throughout the history of repetitive coups in Ghana, Ghanaians had never seen a single coup leader who claimed responsibility and pleaded immunity for his men. Failed coup leaders were busy blaming others to save their own lives. Rawlings, on the other hand, was different in the eyes of the Ghanaians, and his charisma captured the imagination of Ghanaian people (Brydon & Legge, 1996, p. 13).

Backed by his fame and popularity, he easily overthrew the Acheampong regime in his second coup attempt on 4 June 1979. The Armed Forces Revolutionary Council (AFRC) was formed with fifteen middle and lower ranking military officers, chaired by Rawlings and the AFRC became a *de facto* apex institution. As soon as the AFRC took power, “House Cleaning” began and the AFRC executed three former Heads of State of the country, Acheampong, General A.A. Afrifa (1969) and General Fred Akuffo (1978-9) and five other top ranking military officers. A few months later, Rawlings handed over power to elected civilian president Limann of the PNP. The newly elected government offered and sponsored chances of higher education abroad to

members of the AFRC as an attempt to keep them at bay, but Rawlings refused to leave Ghana and instead spent his time getting involved with leftist groups in Accra such as the June Fourth Movement and the New Democratic Movement and socialist intellectuals from the University of Ghana. During this period, Rawlings, who formerly disavowed any form of socialism on behalf of the AFRC, converted to socialist ideology (Boafo-Arthur, 2006, p. 258). On 31 December 1981, Rawlings came back to power with another coup overthrowing the PNP. The second coup did not have significant resistance. Rather, Ghanaians welcomed his political comeback with “great hopes” that he would be more politically trained than he was after his first coup and “a well-grounded belief in Rawlings’s personal sincerity and moral integrity” (Jeffries, 1982, p. 307).



(b) The PNDC and initial leftist elites

The PNDC was formed to run the country right after the coup in 1981.¹⁰⁹ When the PNDC was formed, Ghana suffered an institutional vacuum partly caused by the execution of three former heads of state, the collapse of the Limann administration, partly caused by chronic brain drain from Ghana. Rawlings succeeded in weakening hegemonic power of the previous ruling class, but neither Rawlings nor the PNDC had an alternative vision (Nugent, 1995, pp. 30-42). When existing political parties were proscribed by the PNDC in 1982, the PNDC became the highest policy-making body in Ghana, combining both executive and legislative functions. The PNDC was made up as a two-tier executive: a tier with the members of the PNDC who make policy decisions and another tier of the Committee of Secretaries who implement the decisions.

¹⁰⁹ The PNDC replaced the Armed Forces Revolutionary Council (AFRC) which Rawlings formed in order to deal with the aftermath of the coup.

However, the institutional set-up did not exactly reflect the balance of power since certain secretaries were more influential than some members of the PNDC (Nugent, 1995, p. 126).

The initial selection of members of the PNDC represents the sensitivity of the political situation of the time. Rawlings convinced that the PNDC should include a wide range of people in order not to repeat the mistakes of precedent military regimes (Brydon & Legge, 1996, p. 17). Rawlings appointed himself as Chairman of the PNDC, and the Council consisted of seven members. Four military members and three civilians were chosen by Rawlings with the aim of enlisting as broad a support base as possible. Brigadier Joseph Nunoo-Mensah was chosen to ensure the support of senior officers in the armed forces while Warrant Officer Adjei Boadi was chosen to ensure support of junior officers. Sergeant Alolga Akata-Pore would represent core junta members. Amartey Kwei was a labour leader for the urban working class and Chris Atim was a former student leader for the young while Father Damuah represented the petty bourgeoisie. According to Nugent (1995, p. 43), the members were personally connected with one another and “there was a deliberate effort to achieve a rough ethnic balance.”

Nevertheless, there was one thing that the initial members of the PNDC had in common: leftist ideology. Ever since the first president of independent Ghana coined the term “neocolonialism”, an African version of dependency theory and non-alignment remained a persistent intellectual legacy amongst the Ghanaian elite. This legacy persisted despite ideological swings according to the ideological orientation of a regime. The PNP of Limann also had its political origin in Nkrumah’s socialist Convention People’s Party. Around the time when Rawlings was planning the coup, leftists of the PNP began to feel betrayed by the PNP’s neoliberal approaches. The

leftists were a political base of Rawlings's December coup, and after the coup, they became strenuous supporters of the new socialist regime of Rawlings. In the beginning, Rawlings's regime was an offspring of the Nkrumah regime as far as Communist ideology was concerned.¹¹⁰ Looking at the initial members of the PNDC, it was a coalition of neo-Marxist intellectuals, left-wing student leaders, some soldiers, and militia trade unionists in Accra. Again, it should be noted that such leftist inclination was expressed as a continuation of the non-aligned policy of Nkrumah rather than pure Communism.

The loosely united and precariously balanced initial members of the PNDC, most of whom were regarded as enemies from inside and a threat to the regime, collapsed in the course of 1982. Among those Sergeant Akata-Pore and Chris Atim were engaged with the abortive coup on October 1982 against Rawlings, which led Akata-Pore and 500 members of military ranks to be arrested and Chris Atim to go into exile.¹¹¹ Another initial PNDC member Nunoo-Mensa, who achieved the coup alongside Rawlings in 1981, later moved close to Akata-Pore during the period before the abortive coup against Rawlings and tendered his resignation a month later as well (Nugent, 1995, pp. 93-105).¹¹² As a result, at the end of 1982, Rawlings and his close elites

¹¹⁰ Adoption of a set of dependencia policies can be seen in the composition of the members of the PNDC. Dependency theory became the basis of policy formulation in Ghana after 31 December 1981, as the Rawlings government introduced a number of pro-dependency theory policies such as monopolisation of importing through government, exclusion of foreign agencies and price controls (Ahiakpor, 1985, p.543). Rawlings's PNDC confiscated "ill-gotten" private assets including bank deposits unjustified and in excess of 50,000 cedi, houses, cars and factories (Leith & Söderling, 2003, p. 39).

¹¹¹ In the coup attempts, Akata-Pore was in charge of military mobilisation and Christ Atim was expected to rally the PDCs and WDCs in Accra, which led to the subsequent collapse of the PDCs and WDCs by Rawlings and his close advisors (Nugent, 1995, pp. 94-95).

¹¹² Among the remaining two members, Amartey Kwei was executed for his role in the murder case of judges and Father Damuah was forced to resign being regarded as incompatible with the spirit of revolution (Nugent, 1995, p.

succeeded in getting rid of inner enemies and in the beginning of the 1983, the PNDC embarked on a new stage of foreign policy with a new set of elites.

(c) The new set of elites: technocrats and securocrats

At the end of 1982, most original members of the PNDC were replaced. According to Nugent (1995, p. 107), “although a PNDC minus Rawlings would certainly have been like Hamlet without the prince, his importance did not lie primarily in his involvement in the day-to-day business of government” and “the importance of Rawlings’s periodic interventions in debates about economic reform, foreign policy and democratisation was largely symbolic.” Instead, he mapped out four different strands in the remodelled regime: technocrats, neo-traditionalists, the cadres with revolutionary origins, and securocrats. However, neo-traditionalists and the cadres were low in their status and their influence on policy making was limited, which excludes them from the bracket of the elite in the thesis. In the sense, the elite who changed foreign policy in 1983 in Ghana were technocrats, represented by Kwesi Botchwey and securocrats, represented by Kojo Tsikata.

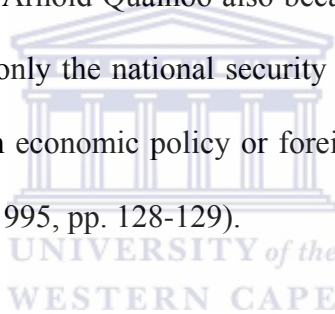
Technocrats were a pillar of the new Ghanaian elite in Rawlings’s regime. When an Economic Review Committee was established soon after the coup, it comprised of economists and high ranking officials with different views concerning economic development for Ghana. At first, they could not agree on an economic development plan and this led to a series of conflicts over the direction of Ghana’s economy. The Committee’s role of designing the basic economic road map for the new regime, consequently, did not proceed very well from the beginning. There

were two groups with contrasting views on Ghana's economic policy proposals: monetarists and structuralists. The monetarist group was led by Abbey who found a solution to Ghana's economic struggle in currency devaluation for boosting exports. On the other hand, structuralists, whose main supporting base was the People's Defence Committees, believed that structural transformation of Ghana's economy was the right solution to address economic peril. Therefore, the structuralists, who gave little recognition to the role of the exchange rate in economic growth, rejected negotiations with the IMF.

It was Kwesi Botchwey, a leading technocrat in Ghana, who led the negotiations with the IMF as a Secretary of Finance and Economic Development and finished the conflicts between those conflicting technocrats. Originally, Botchwey, a PhD from the University of Michigan Law School and a former lecturer in Law at the University of Ghana, was an "avowed Marxist" (Gocking, 2005, p. 194). However, the inability of the Soviet Union and the socialist bloc to provide much-needed financial capital converted him to a pragmatic technocrat. Soon he internalised economic liberalism and became an ardent advocate of neo-liberalist reform insofar as he claimed that the ownership of the economic development program did not lie in the nationality of the authors of the program as such but rather lied in "the conscious and deliberate choice by the government of the reform path" (Botchwey, 1997, p. 22).

In the meantime, even though Rawlings tried to give a civilian veneer to his regime, the elite were mostly military. Compared to the first generation of the PNDC in which four members had been military men, by the end of 1983 only two members, including Rawlings, had a military background (Gocking, 2005, p. 196). Despite his appointment of civilians to nearly all seats in

the PNDC, the *de facto* power was in the hands of the military. In addition, there were ostensible civilian heads of cabinet, ministers, state agencies and regional administrations; however, military officials were appointed to be second in command (Agyeman-Duah, 1987, p. 618). The military elite of PNDC were “radical, populist and violent” (Austin, 1985, p.96). Originally Rawlings carried out the coup with a small group of junior officers, and the small military elite became even smaller going through a few internal coup attempts and the subsequent purges. After a number of internal coup attempts, Rawlings began to rely heavily on a few securocrats including Kojo Tsikata (Roessler, 2011, p. 310), and later, two other military elites, Brigadier Mensah-Wood and Major-General Arnold Quainoo also became members of the PNDC. Those securocrats were in charge of not only the national security but also the security of the regime. They did not publicly meddle with economic policy or foreign policy but their strong presence was always at the centre (Nugent, 1995, pp. 128-129).



In conclusion, despite Ghana’s long tradition of educated and highly skilled elites, Rawlings’s regime suffered from an insufficient pool of elites due to chronic brain drain, competitions among elites, and following purges within the elite group. In fact, the elite in Ghana in 1983 were an outcome of repetitive fights against enemies within. This caused heavy reliance on a small number of military elites with Rawlings at the centre. Even though technocrats were recruited for economic policy making in Ghana, their role and autonomy was limited by the ever-present military elites whom Rawlings most relied on. The formation of the elite, which is characterised by the survival against enemies within, defined the path of the nation. In what follows, the thesis examines the decisions the elite made and the path shaped by the decisions.

5.3 Path-dependent Aid Dependence

Even though Ghana came under the personal rule of Rawlings in 1979, in the beginning he was neither an active autocrat nor a single-handed captain. Rather, at the initial stage, he was “a figurehead to lend legitimacy” to the leftists’ rule since he was popular enough with civilians and the army to maintain political stability (Jeffries, 1990, p. 159). In this early stage, the power of Rawlings’s support groups outweighed his own. Hence, the populist Rawlings regime had to adopt dependency policies to please its leftist power base. After the coup, Rawlings invited leftists such as the Ghanaian scholar Emmanuel Hansen, for political consultation. Hansen believed that Ghana’s economic plight could not be solved within the post-colonial structure and thus Ghana should sever the economic relations with the Western countries in order to establish economic development (Hansen, 1987, p.170).

When Rawlings took office, political opponents were divided between the liberal New Patriotic Party (NPP) and the fragmented Nkumahist, so that they did not make up a significant political opposition, which was able to call for an alternative or a transition to Rawlings (Levitsky & Way, 2010, p. 301). Ghana did not have significant international enemies either outside of its border, which could threaten the survival of state. Although the left wing had been the power base of the Rawlings coup, it soon emerged as his main rival for political power and threatened the survival of Rawlings through a few abortive coup attempts in the course of Rawlings’s first year in office. Despite his initial weak stance, Rawlings was a good politician insofar as he could make good use of one party to check and compete against another. Ghana’s critical juncture of foreign

policy change toward the IMF and the World Bank should be understood in the context of the elite perspective of mercantilism by which Rawlings and his courtiers fought enemies from the inside for their survival, which resulted in the added pile of expatriates from Ghana. The following sections focus on the fights against enemies within and, more importantly, the price the ruling elite chose to pay to win their fights: the abdication of national autonomy.

5.3.1 The Critical juncture: abdicating economic autonomy for financial aid

The Rawlings regime ousted the Limann administration claiming to uphold a cause of anti-imperialism. Thus, the foreign policy change towards Western states or their institutions contradicted the *raison d'être* of the regime. At first, it was the Revised Budget Statement 1981-82 in which the tenor of the speech was changed towards favouring the IMF, suggesting that the unrelenting economic crisis of Ghana asked for “fundamental restructuring of the economy...as quickly as the urgency demands” (Ministry of Finance and Economic Planning, 1982, p. iii, quoted in Folson, 1993, p.85). However, in the meantime, the elite in Ghana still showed confidence in the Soviet Union for material help not only for Ghana, but also for the national liberation movement in South Africa and Namibia under the Apartheid regime (West Africa, 1983, p. 236). Later, when the deal with the IMF began to materialize, the Rawlings regime pronounced that the pro-West redirection of the foreign policy was a procedural means to reach Socialist ends. Ghana’s engagement with the IMF was proclaimed as an immediate expedient to achieve the ultimate goal of “complete disengagement of the country’s economy from the

exploitative capitalist world economic order” (West Africa, 1983, p. 370).¹¹³

Such ambivalent attitudes were caused by the weak political grip of Rawlings’s regime till then. In the beginning of Rawlings’s regime, when secret negotiations were taking place between Ghana and the IMF, Rawlings did not have enough political power to disclose these negotiations and to face a socialist power base and therefore even during the negotiations with the IMF, Rawlings’s administration affirmed its leftist ideological position. Ghana’s political elite in the PNDC, at the initial stage, were divided broadly into two factions: the June Fourth Movement (JFM) and the New Democratic Movement (NDM).¹¹⁴ When the Rawlings government embarked on secret talks with the IMF behind the back of the political left, the JFM and the NDM were sceptical about the new foreign economic policy. For them, negotiation with the IMF meant betrayal of the revolution. Instead, the secretaries of the JFM and NDM¹¹⁵ suggested a leftist version of the developmental strategy. The core idea of the suggestion was “*autonomous and self-reliant development based on mass mobilisation (emphasis added)*” (Hansen, 1987, p. 198).

¹¹³ Some writers find the Rawlings regime to be populist rather than Communist, because despite the strong anti-Western rhetoric in the beginning of the regime, there was nothing revolutionary in Rawlings’s policy (Kilson, 1987; Toye, 1991; Bentsi-Enchili, 1983; Chazan, Naomi 1991). Jeffries (1990, p. 160) also argues that, based on the speeches of Rawlings when he came back to power in 1982, the leftists failed to convert him between 1979 and 1982 and Rawlings was “a populist patriot” who was “determinedly non-ideological, even anti-ideological” regarding Ghana’s economic conditions.

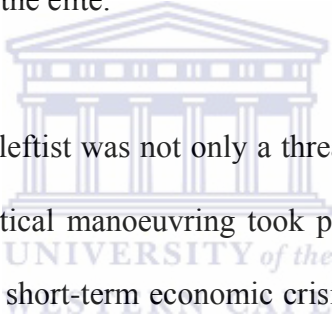
¹¹⁴ Six main political organisations provided varying degrees of support for the Rawlings regime: the June Fourth Movement, the New Democratic Movement, the Kwame Nkrumah Revolutionary Guards, the Africa Youth Command, the People’s Revolutionary League of Ghana and the Pan-African Youth Movement. However, the main two were the JFM and the NDM and the rest “existed only on paper” (Nugent, 1995, p. 33). Therefore the thesis focuses on the JFM and the NDM.

¹¹⁵ They were Mahama Sawa, secretary of the JFM and Yao Graham, secretary of the NDM.

Even though most members of the JFM and the NDM were lecturers, students, or ex-students at the University of Ghana influenced by dependency theory, there was a critical difference between the two groups. The NDM was influenced by Mao's "New Democracy" as the NDM name indicates; socialism was an ultimate goal which was possible via the intermediary means of alliance between classes including the rich (Jeffries, 1990, p. 162). On the other hand, the JFM's goal was rapid socialism by attacking the rich and severing international links with imperialist countries. The JFM was formed in 1979 with the purpose of watching over the new civilian government of Limann and protecting the 'gains' of the June Fourth Revolution, which was the first successful coup of Rawlings. Notwithstanding the handful of militant leftist students who founded the organisation, the JFM became a major political group once Rawlings accepted its Chairmanship. For Rawlings, who did not have a particular political base, it was an opportune position as well. As a result, when Rawlings took power through the second successful coup, JFM regarded this as its own political success and regarded itself as the PNDC government (Hansen, 1987, p. 186).

Thus, as the Rawlings regime got settled in, the JFM soon emerged as a threat for Rawlings to get rid of. Rawlings manipulated the NMD to undermine the JFM. In this process Rawlings manipulated National Defence Committees (NDCs) and Defence Committees (DCs) which were national organisational structures for people's autonomy, an aspect that will be discussed more in the next section. Between October and November 1982, a number of incidents took place that brought the JFM to an end. After an abortive coup on 23 November, a number of critical figures from the JFM were arrested. Chris Atim went into self-exile after his resignation as co-ordinator of the NDC, which gave the already ailing JFM a severe blow. Initially, the NDC was staffed

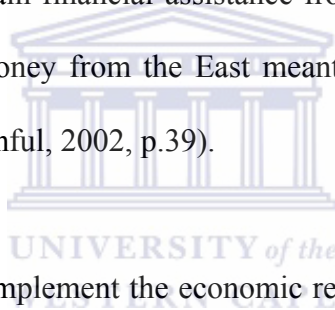
primarily by members of the JFM and the NDM greatly resented the dominant position of the JFM (Nugent, 1995, p. 45). After the withdrawal of the JFM from the NDC, Rawlings approached the NDM offering newly available positions in the NDCs, and the NDM took the bait. Throughout this procedure the NDM turned in favour of the new foreign economic policy towards the IMF (Africa Research and Information Bureau, 2000, p. 7). The dynamics between the JFM and NDM, as two pillars of the Ghanaian elite, played a critical role in changing Ghana's foreign policy. Changing foreign policy toward the Bretton Wood Institutions and securing aid from them should be understood along with breaking down the dominant socialist alliance in search of the survival of the elite.



However, one should note that the leftist was not only a threat to Rawlings, but also a failure in securing funding. Rawlings's political manoeuvring took place against the background of the failure of the leftists to address the short-term economic crisis as well as to provide a long-term economic growth strategy. The struggling economy of Ghana needed help. The pressure on the Rawlings regime came from all fronts: workers, petty bourgeoisie, rightists, and leftists. The rightist group looked for a solution in a massive infusion of foreign assistance and the left in general favoured structural reform, but neither side had sufficient political power to proceed with their solutions. The stalemate broke when a right wing economic adviser succeeded in obtaining substantial loans from Standard Bank¹¹⁶ with a promise of more future lending on condition that

¹¹⁶ Standard Bank was established in 1862 in Cape Town initiated by a Port Elizabeth merchant John Paterson (he became the first chairman of the bank) with financial support from South African merchants in London, and at first its name was 'Standard Bank of British South Africa, Limited' (Amphlett, 1914, pp. 1-5). When Ghana borrowed money from Standard Bank, loans were extended to many Western African countries including Ghana, Nigeria, Cameroon, Gambia, and Sierra Leone through a merger with the Bank of West Africa which took place in 1965 (Standard Bank, 2014).

Ghana's economic structure was not going to change drastically. In an economically desperate situation of the time in Ghana, a financial contribution to the national budget was equivalent to obtaining political power. Leftists, headed by Chris Atim, feeling threatened both economically and politically, toured Libya, Eastern Europe, Cuba, and the Soviet Union to seek financial aid, but came back with a promise of technical assistance without any cash offering (Nugent, 1995, p. 92). Therefore, the shift to the aid from the West should be understood not as a single political performance of Rawlings but as an outcome of elite dynamics which included him. In the end, Rawlings decided Ghana's path to economic growth: this included negotiations with the IMF and the World Bank. The failure to gain financial assistance from the Soviets led to the demise of leftist influence in Ghana. No money from the East meant "the death of radical *structuralist* options (emphasis original)" (Hutchful, 2002, p.39).



To receive the aid, Ghana had to implement the economic recovery programme (ERP) designed by the IMF, which should be translated as a blow to Ghana's autonomy of designing its economic policy without intervention of entities from outside. In the beginning, it seemed that the ERP and increased investment in the public sector made a positive impact on Ghana's disastrous economy. In addition, the Western donors needed a successful case to present and they became more enthusiastic about Ghana, the first country which adopted the IMF package (Whitfield & Jones, 2008, p. 6). As a result, donor involvement in Ghana's economic policy became more aggressive and consequently the Rawlings regime was left with less autonomy on deciding its own national economic path. The IMF imposed Structural Adjustment Programmes (SAPs) which was "a process whereby developing nations reshape their economies to become more market-oriented" as a condition of providing aid (Haruna, 2001, p. 111). As part of the SAPs,

Ghana devaluated the Ghanaian currency, the cedi, reduced government expenditure, restricted bank credit, removed subsidies on utility services, and widened the tax net. The Rawlings government made a good effort to meet the IMF conditions and, as a result, borrowing has been continuing ever since the critical juncture of 1983, accompanied by ever-growing abdication of Ghana's autonomy. Whitfield (2010, p.725) describes the situation as:

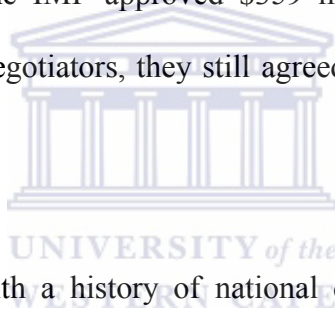
Ghana's initial success with economic reform attracted much donor support, resulting in an expanded range of policy interventions tied to increased concessional credit. The economic team lost control over the pace of the reforms as the number of donors supporting the reform process increased. Central co-ordination of the reform process dissolved as donors negotiated directly with line ministries who did not know what the central economic team was doing.

In the meantime, eventually, Rawlings succeeded in overcoming all potential political rivals and, according to Hansen (1987, p. 177), a former Secretary of PNDC, "law emanated more as decrees from the Chairman (Rawlings) than as a result of consensus arrived at by members of the Council." The *modus operandi* of the Council was secretive but one clear thing was "its ideological predispositions were different from the left position articulated by the progressive organisation, the urban working classes and the radical intelligentsia" (Hansen, 1987, p. 177). Despite the requirement that the Chairman shall consult with the Council members and take advice from them, in practice, Rawlings performed with or without their advice. Hansen (1987, p. 193) describes the chosen path of Ghana's economic development as follows:

Once development needs were defined in this narrow way, political legitimacy for Rawlings and some of the petty-bourgeois right which cohered around him depended on the ability to attract foreign finance and satisfy the consumerism of the petty bourgeoisie as a whole, and this was to become the main programme of the PNDC.

In short, Rawlings opted for cash in exchange for Ghana's economic autonomy and abandoning technical assistance. The leftist suggestion was not adopted for political and practical reasons, and instead, the Rawlings regime chose the less autonomous and less self-reliant development plan of the economic recovery programme (ERP) for the economic development strategy of Ghana. The thesis highlighted the development of elite dynamics to explain that the path of aid in exchange for autonomy was not imposed from outside but chosen from inside for the survival of the regime on behalf of the survival of the state. Unlike Ghana, there are some countries such as Botswana and Papua New Guinea which devised indigenous development programmes in negotiating with the IMF, even though many more recipient countries accepted the IMF's development packages (Toye, 1991). In addition, as Aryeetey & Cox (1997) and Hutchful(2002) point out, negotiators from aid-recipient countries do not accept the terms of aid contracts in a passive manner. In many cases their voice is louder than that of aid donors. Ghana's aid negotiations with the IMF in 1983 were regarded as one of those cases. In August 1982, Botchwey made several visits to Washington to submit a request for loans from the IMF, and the negotiation went on until March 1983 when the IMF and Ghana reached an agreement. At the centre of negotiations with the IMF was the issue of the devaluation of the cedi. Anti-devaluation sentiment was high not only among unions which politically backed Rawlings but also among Ghanaians in general. The IMF was not welcomed by Ghanaians in response to the unpopular currency devaluation in 1966, 1971, and 1978. Debates between the two groups continued even when the secret negotiations between Ghana and the IMF reached the third set of policy proposals which became the basis of the PNDC's Programme for Reconstruction and Development introduced in December 1982 (Hutchful, 2002, pp.37-38). The process of

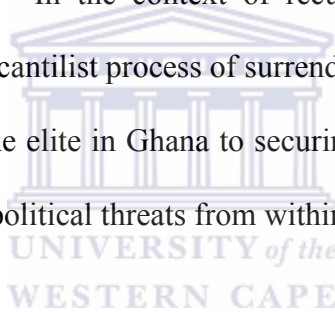
negotiation was praised for the tough stance and high spirit of the Ghanaian negotiators. Ghana gained some respect internationally and especially from other African countries by being able to negotiate forcefully with the Bretton Wood Institutions (Aryeetey & Cox, 1997, p. 79; Armstrong, 1996). Pro-PNDC parties lauded Botchwey, the chief of the Ghanaian negotiation team, for his courage to face down the IMF (Hutchful, 2002, p.39). Even though some concerns were raised by the Ghanaian counterpart on long-term structural issues, most disagreement occurred over “the scale, speed and sequencing of reforms, rather than the general thrust of them” (Whitfield & Jones, 2008, p. 6). On February 1983, agreement was reached by Ghana and the IMF and six months later, the IMF approved \$359 million of ‘special drawing rights’. Despite the prowess of Ghana’s negotiators, they still agreed to the IMF’s model for economic development.



Ironically, Ghana is a country with a history of national development plans beginning with Nkrumah’s the Seven-Year Development Plan from 1963¹¹⁷, but the tradition was abandoned when Rawlings and the elite chose to abdicate the autonomy of economic policy making in return for monetary assistance and checking their political opposition. After the foreign policy change in 1983, Ghana’s national economic development plan was formulated, to put it in a modest way, “in close collaboration with the World Bank and the IMF” (Toye, 1992, p. 190). To more critical observers, it seems that Ghana “virtually place(d) the whole task of economic restructuring under the supervision of the Fund and Bank” (Konadu-Agyemang & Takyi, 2001, p. 22). The IMF and the World Bank took a degree of control over Ghanaian economic policies

¹¹⁷ However, Aryeetey and Cox (1997, p. 86) argue that the home-grown Ghanaian development plan was boycotted due to the geopolitical and ideological preferences of Western donors.

and the pervading influence of foreign experts, consultants and advisers reached “intolerable levels” to some Ghanaian professional classes, students and workers (Anyemedu, 1993, p. 41). It became common that major agreements between the World Bank and Ghana were typed beforehand in Washington and delivered to Ghana only for signature by Ghanaian counterpart (Loxley, 1988). The elite in Ghana abdicated domestic autonomy for economic policy making and instead, accepted the new economic development directions designed by the IMF as a national economic development plan. The decision was made on behalf of Ghanaian economic development; however, as seen in following sections, it only deepened aid dependence rather achieving economic development. In the context of recurring coups efforts to de-seat the Rawlings regime, the indebted mercantilist process of surrendering economic policy autonomy in exchange for aid, was a way for the elite in Ghana to securing their political survival, i.e. using foreign policy as a tool to counter political threats from within the regime.

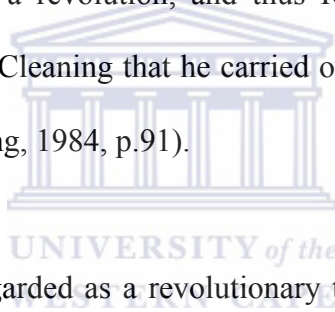


5.3.2 Expansion: Abdicating people’s autonomy

For Rawlings and the members of the coup, the events of 31 December 1981 were not a military coup. It was a revolution. That was why, as he claimed, a radio station did not air the national anthem after he took office (West Africa, 1982, pp. 70-71). His intended theme of the coup was ‘Power to the People’ (Austin, 1985, p.95). In his first radio broadcast after the coup on January 4, he stated:

This is not a coup. I ask for nothing less than a revolution-something that will transform the social and economic order of this country.

However, Rawlings's self-claimed revolution did not impress the Ghanaian population who were used to revolutionary military coups (Agyeman-Duah, 1987, p. 613). In fact, most coup leaders claim revolution including previous coup leaders before Rawlings in Ghana. Huntington (1968, p. 264) defines a revolution as "a rapid, fundamental, and violent domestic change in the dominant values and myths of a society, in its political institutions, social structure, leadership, and government activity and policies." In contrast, a military coup is a change of members of the top echelon of governing bodies via military means. No coup in Ghana transformed a society. They were all about a take-over from the ruling power. In every aspect, what Rawlings did was a military coup and not a revolution, and thus Rawlings needed something with a revolutionary feature. The House Cleaning that he carried out in 1979 was not enough to make his regime a revolutionary one (Bing, 1984, p.91).



The people's participation was regarded as a revolutionary trait and therefore this was insisted upon repeatedly in his initial speeches after the coup. For example: "the people, the farmers, the politics, the soldiers, the workers—you, the guardians—rich or poor, should be a part of the decision-making process of this country" (West Africa, 1982, p. 67)¹¹⁸; and "active participation of the people in the decision-making process" (West Africa, 1982, p. 70).¹¹⁹ Rawlings announced that "power will not be concentrated at the top any more, and nobody at the top can enslave us because there is no way anybody at the top, whether he is a saint or a devil can do what he likes" (Workers Banner, September, 1981, quoted in Yeebo, 1985, p.66). Thus, on 5

¹¹⁸This is part of the first speech Rawlings made after the coup.

¹¹⁹ This is part of the second speech Rawlings made after the coup.

January 1982, Rawlings broadcasted a call for the set-up of decision-making units of the Defence Committees (DCs) as a vehicle to return the decision-making power to the people at every workplace and in every community (Nugent, 1995, p. 44).¹²⁰ The response was “immediate and positive” (Bing, 1984, p. 91). Soon afterwards, in Ghana, there was no village without a DC. It is estimated that there were more than 10, 000 People’s Defence Committees (PDCs)¹²¹ across Ghana (Oquaye, 2004, p.147-152).¹²²

When Rawlings re-formed the elite around him, the Defence Committees (DCs) was used as a useful tool to demise one and entice the other. The DCs were created to complete Rawlings’s revolution by empowering people with more autonomy that could influence decision-making in national affairs. They were “the institutions through which their collective energies could be mobilised and channelled into social action in accordance with the dynamics of the transformation process” (Hansen, 1987, p. 178). The creation of DCs was influenced by revolutionary countries such as Libya, Cuba, and Nicaragua¹²³ which also had a people’s

¹²⁰ The origin of the DCs was in the Popular Committees of the Police Service (PCPS) formed by junior police officers in 1981. The PCPS worked closely with the June Fourth Movement under the Limann government in preparing for the second military coup. As secret police groups, the PCPS carried out underground activities and disclosed some corruption cases in the Limann government. In his speech commemorating the second anniversary of the June Fourth Uprising, Rawlings, praising the PCPS, said that Ghana needed more committees similar to them. Afterwards, in a spontaneous manner, similar committees began to form, but it was only after the inauguration that the DCs were officially set up (Oquaye, 2004, p.127).

¹²¹ The DCs were a combination of People’s Defence Committees (PDCs) in residential villages and Workers’ Defence Committees (WDCs) in working places. The structure is explained in the next section.

¹²² This number was obtained from the author’s interview with then legal adviser at National Headquarters. However, he also added that no specific statistics are available since there was no headquarters which were in charge of statistics regarding the PDCs.

¹²³ Among those, Colonel Gaddafi of Libya was a fervent believer in Defence Committees. He saw the Defence Committees as an organ that replaces a representative parliamentary system which usurps the sovereignty of the

organisation like DCs, and the internal need to mobilize political members in the initial period after the coup also played a part.

According to *Workers Banner*, a newspaper of the JFM, which played the role of mouthpiece of the JFM, the role of committees was defined as:

Only the revolutionary institutions of the workers, poor people—Revolutionary Committees of Workers, Soldiers, Policemen, Farmers, Peoples Congress etc.—can enable all of us to take active part in government, to have a voice in the utilisation of our wealth, *to demand which fishing nets or cutlasses should be imported... These committees of the ordinary people, will hold mass meetings...to debate national issues and to take decisions affecting the lives of the ordinary people. That is why the people's committees represent the highest form of democracy. The budget proposals will be debated by the farmers in their villages, the workers in the factories, mines and on the shop floors, the soldiers and police in their barracks and their collective decisions will become the law of the day* [emphasis added] (*Workers Banner*, 1981).¹²⁴

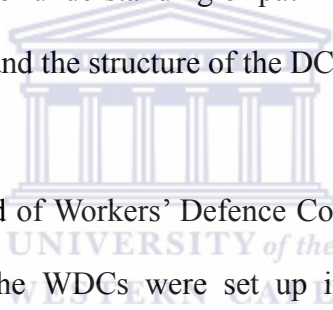
As expressed clearly above, the core idea of the Defence Committee was people's autonomy and participation. People could take control of decision making ranging from which fish nets should be imported to whether the parliament budget proposal should be passed. Thus, at least in theory, the DCs were institutions for grassroots democracy (arguably the highest form of democracy), which can complement the shortcomings of parliamentary democracy. Rawlings saw that the path towards changing norms and attitudes of people in Ghana was via *granting*

masses (Oquaye, 2004, pp.144-5). Indeed, the Libyan *jamahiriyya* system became a model for Ghana's CDs. In theory, the *jamahiriyya* system replaces obsolete national politics (Mohan 1996, p.80).

¹²⁴ *Workers Banner*, vol. I, no. 1, 20-27 October 1981, re-quoted from Hansen, 1987 pp. 180-1.

autonomy to people. As Oquaye (2004, p.152) notes, what made the DCs blossom were “*autonomy, self direction, personal initiative and spontaneity (emphasis added).*”

The Defence Committees were formed in response to the Ghanaian elite’s intention to have a revolutionary façade. However, once the elite then turned its foreign aid policy in an anti-revolutionary direction, the revolutionary DCs became a burden. People with a revolutionary mind-set and autonomous power were expected to be a big obstacle in implementing the IMF-guided economic policies, which would hardly please donors. Thus, the elite decided to get rid of the DCs. In order to gain a better understanding of path reinforcement and the destruction of the DCs in it, one needs to understand the structure of the DCs.



The Defence Committees consisted of Workers’ Defence Committees (WDCs) and the People’s Defence Committees (PDCs). The WDCs were set up in work-places such as mines and factories, and the PDCs were set up in residential areas in villages and towns. As a higher organ which coordinated the activities of the PDCs and WDCs, the National Defence Committee (NDCs)¹²⁵ was formed with a self-appointed head, i.e. Rawlings.¹²⁶ The ultimate task of the NDC was “to educate the nation on the objectives of the revolution” (Bing, 1984, p.98). The NDC issued the National Defence Committee Guidelines for the formation and functioning of

¹²⁵ The Interim National Coordinating Committee (INCC) was the organ preceding the National Committee. However the INCC (headed by Chris Bukari Atim, a member of the PNDC) did not operate effectively because of political checks, conflicts between groups over ideologies, and various suspicions in competition with the PNDC; it changed to the National Defence Committee (NDC) in July 1982 (Nugent, 1995, p. 45).

¹²⁶ The head of the NDC was Rawlings, even though he attended NDC meetings only once during his rule, despite his initial encouragement in setting up the DCs (Oquaye, 2004, p.155).

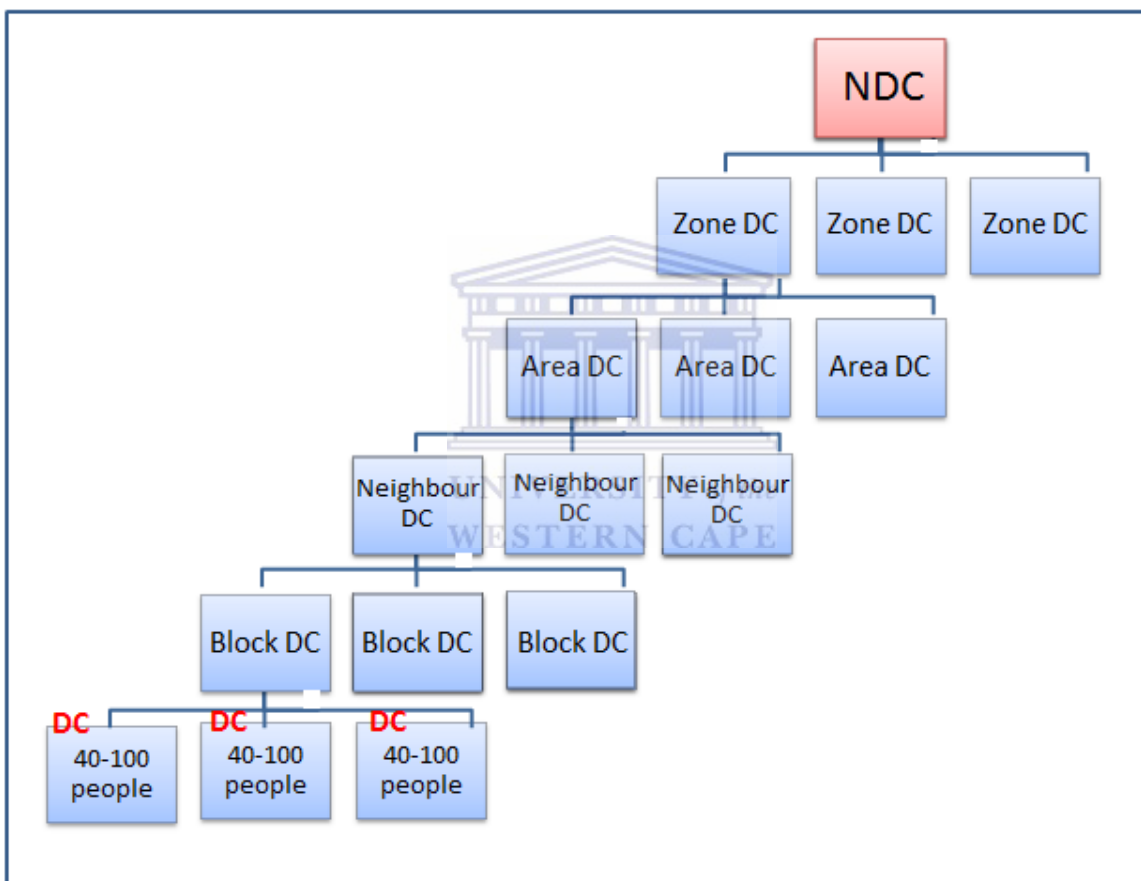
the Peoples Defence Committee in 1983, in which neo-colonialism was strongly criticised for the economic plight of Ghana. Figure 5-2 shows the structure of the DCs. According to the Guidelines, between 40 and 100 people are needed to set up a DC. Its functions entail: data collection on population, economic activities, and infrastructure; ensuring maximum production and storage for self-sufficient and efficient marketing; establishment of People's Shops¹²⁷; education and training for raising political awareness; health and sanitation; village layout and housing; afforestation; and, defence and security. The DCs had to finance themselves and the members had to pay dues for this purpose (Gocking, 2005, p. 190; Nugent, 1995, pp. 110-116). Even though DCs started as a way to spread Rawlings's revolutionary spirit beyond the coup members and towards grassroots, at a later stage Rawlings reshaped the DCs in economic terms. The ultimate goal of the DCs became to establish a country where "everyone can say I have my house, I have my small belongings, I have my co-operative, I have food and medical attention" (Tsikata, 1968, quoted in Oquaye, 2004, p. 114).

When Kwesi Botchwey, the Secretary of Finance, announced that Ghana re-opened negotiations with the IMF on 20 October 1982, it was translated as "intolerable deviation from the Marxist view of the world" by Ghana's left wing elites most of whom were holding influential posts in NDCs (Folson, 1993). Almost instantly, there were coup attempts on 29 October in a rather peaceful manner this time, and on 23 November, more violently. Rawlings responded to these

¹²⁷ According to the Guidelines, a People's Shop has multiple purposes such as distribution of commodities, and co-operation for production, marketing and obtaining inputs for farmers. The creation of a People's Shop originated from the scarcity of commodities in previous regimes in Ghana. Private shops yielded high profits due to that scarcity and the PNDC attempted to control the supply by introducing People's Shops where the PNDC distributed supplies (Nugent, 1995, pp. 110-116).

opponents with an attack on the PDCs and WDCs in a speech. He criticised the basic character of PDCs and WDCs. His criticisms targeted the Interim National Co-ordinating Council, the leading organ of DCs which Rawlings regarded as the stronghold of radical leftists.

Figure 5-2. Structure of the DCs



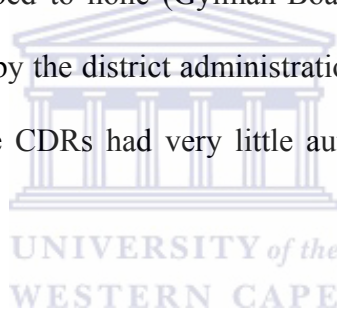
Along with the PNDC's political check on the NDC which was the highest organ in the DC structure, there are a few more factors that brought on the demise of the DCs system such as unstable leadership of the NDC and lack of guidance for members of DCs. However, despite the other contributing factors, the decisive reason should be found in political tension between the

DCs and Rawlings as reflected on a few critical occasions. On 28 October, a rumour of Rawlings's exile confused Accra, and it later transpired that the announcement was originally made in a meeting in the Accra Zone Defence Committee. Following this event, in November, the co-ordinator of NDC, Chris Atim, went into exile in response to a failed coup attempt which led to the arrest of several key members of the JFM. These incidents left the NDC and the JFM, directionless (Gyimah-Boadi, 1993).

The break-down of the NDC coincided with the increasing need for the Rawlings regime to implement the IMF conditions for securing foreign aid. The ERP needed to abide by not only economic but also socio-political preconditions. The IMF and the WB were suspicious of DCs. They were regarded as “uncertainties and perceived or real threats of coercion and interference in their (Ghana's) economic pursuits which are mandatory for eliciting a quick response from the private sector” (World Bank, 1983, p. 51, quoted in Oquaye, 2004, p. 164). The DCs' common cry against the West or multinational enterprises was typically “they (PDCs) should particularly watch and deal ruthlessly with multinationals who are cheats, exploiters and blood suckers, engaged in nefarious activities which have shattered our economy” (Minutes of East X'Borg Zone B PDC, 1982, quoted in Oquaye, 2004, p. 185); this attitude did not win any friends at the IMF.

The Rawlings regime agreed with the Bretton Wood Institutions on how to deal with the DCs. The IMF conditions attached to the loans were unbearably harsh to most people. Rawlings needed to have an iron grip on power to impose the ERP. The autonomy of working-class people and the acclaimed decision-making power of the people were not conducive to implementing the

harsh ERP and, more importantly, not conducive to securing the potential financial capital that would come with the ERP. The DCs therefore had to be demolished. In the beginning of 1983, the Rawlings government embarked on dismantling the DCs and other organs for people's power to undermine their limited autonomy which was granted and upheld by the same leadership. Eventually, in 1985 Rawlings dissolved the whole DC system of the NDC and DCs, alleging that they were "infiltrated by counter-revolutionaries" and he replaced them with the Committees for the Defence of the Revolution (CDRs) (Agyeman-Duah, 1987, p. 620). The CDRs did not have any ideological orientation. The CDRs were placed under the political direction of the PNDC and its autonomy was circumscribed to none (Gyimah-Boadi, 1993, p. 7). Instead of having autonomy, CDRs were controlled by the district administration. The NDC was also replaced by the Secretariat for the CDR. The CDRs had very little autonomy and were "virtually labour brigades" (Hansen, 1987, p. 200).



In short, the foreign policy change and the demolition of the DC system can be summarized as the abdication of people's autonomy. The elite in Ghana decided to dismantle people's autonomy in search of foreign aid which coincided with the elites' fights for survival against enemies within. As a result, Ghana came to settle on the path of abdicating autonomy in exchange for foreign aid through abdicating a big part of its economic autonomy and people's autonomy as examined in the previous and this section. In the subsequent section, the thesis examines the reinforcing path of abdicating economic autonomy: political autonomy.

5.3.3 Reinforcement: Giving up political autonomy

In 1992, abandoning a decade of authoritarian rule, Rawlings regime returned to democracy. The democracy in Ghana was regained neither by popular revolt against the authoritarianism nor by the international influence of the collapse of the Eastern bloc. Although Rawlings consistently mentioned and promised a return to elected government, he did not feel any need for a return to democracy; his political opponents were virtually non-existent since 1986 and foreign aid was flowing in without interruptions by the end of the 1980s. The Rawlings regime had “a fairly high degree of political authoritarianism”, such that he did not need political transformation to democracy (Jeffries, 1982, p. 316). In this aspect, Rawlings was the prime example of “the basic paradox of democratisation”, which means “those who have power tendentially have no interest or inclination to democratize, for democratisation entails the redistribution of power against those who are in power and those who are privileged” (Ake, 2000, p. 70). Such people in power are not willing to move towards democratisation unless there is a “countervailing compulsion” (Ake, 2000, p. 70). For Rawlings and the ruling elite in the regime, the countervailing compulsion was foreign aid. Here, the thesis is not focusing on whether democracy is conducive to aid independence. Leaving aside the normative value that is sometimes automatically attached to democratic transition (especially in the period after the end of the Cold War), in Ghana’s case political transformation reflects the ultimate abdication of autonomy, political autonomy. The process of democratisation in Ghana in the early 1990s was a barter between foreign aid and political autonomy.

In fact, Ghana’s extreme aid dependence which started from the 1983 left the elite in Ghana few options but to return to democratic government. However, as Bofo-Arthur (2006, pp. 263-264)

points out, the return was possible only after the elite realised that they could still protect their interests within the transformation. As part of the process of changing political institution to democracy, first, the elite amended the Constitution, *the Transitional Provisions of the 1992 Constitution*. However, democracy was not the only aspect secured in the new Constitution. There was another thing which was enshrined in the new Constitution even before the democracy: security of the ruling elite of the PNDC. The constitutional amendment was made with an intention to secure the interest and survival of the elite in the PNDC against democratisation. Section 34(1) and 34(3) of the new Constitution reflect the elite intention evidently:

34(1) *No member of the Provisional National Defense Council, Provisional National defence Council Secretary, or other appointees of the Provisional National Defense Council shall be held liable either jointly or severally, for any act or omission during the administration of the Provisional National Defense Council [emphasis added]* (Government of Ghana, 1992).

34(3) For the avoidance of doubt, it is declared that *no executive, legislative or judicial action taken or purported to have been taken by the Provisional National Defense Council or the Armed Forces Revolutionary Council or a member of the Provisional National Defense Council or the Armed Forces Revolutionary Council or by any person appointed by the Provisional National Defense Council or the Armed Forces Revolutionary Council or by any person appointed by the Provisional National Defense Council or the Armed Forces Revolutionary Council in the name of either the Provisional National Defense Council or the Armed Forces Revolutionary Council shall be questioned in any proceedings whatsoever and, accordingly, it shall not be lawful for any court or other tribunal to make any order or grant any remedy or relief in respect of any such act [emphasis added]* (Government of Ghana, 1992).

Of course, Rawlings ostensibly asserted that his decision on democratisation was dependent on a growth of people's consciousness, but it is generally agreed that the good governance as new criterion for aid pushed him to hold elections (Brydon & Legge, 1996, p. 23). In the 1990s, the donor societies asked for new political system as a condition for more aid. Thus, Rawlings gave up the PNDC and became a leader of the National Democratic Congress (NDC), a new civilian party replaced the PNDC. However, the NDC was "little more than military government in civilian clothing" comprised with former elites of the PNDC (Boafo-Arthur, 2006, p. 264). Even though there was denouncement by opposing political parties claiming that the election was fraudulent, Rawlings won the presidential race with a 58.3 per cent victory and became a democratic leader of Ghana in November 1992 (Frempong, 2007, p. 136).

When the interest and survival was kept in the political transformation in the name of democracy, what was lost was political autonomy and what was obtained was more foreign aid. The political autonomy was lost because the political transformation was not from inside of the regime or from grassroots. It was a part of the conditionalities of aid and the elite in Ghana accepted and implemented it to secure their own survival and the continuous inflow of funds from outside. Even though the World Bank claims that the 1992 political reform was "clearly owned by, not forced on, the government" (Armstrong, 1996, p. 1), Rawlings and the PNDC had basically abdicated the autonomous right to policy formulation by the late 1980s (Loxley, 1990). After the elections, the democratic Fourth Republic of Ghana continued to receive substantial amounts of foreign aid as part of the SAPs since 1992 (Brydon & Legge, 1996, p. 25). This political reform was another event of reinforcing the path of giving up autonomy, a path which was brought about by the indebted mercantilist elite perspective.

The abdication of political autonomy resulted in a few more negative outcomes in Ghana's economy. Before the political transformation, there was, at least, one good sign in the midst of growing aid dependence. Post-independent Ghana always received foreign aid, but under Rawlings aid dependence rose to record highs. The debt to GDP ratio, which was less than 5 per cent in 1982, skyrocketed to more than 80 per cent in 1992 (Leith & Söderling, 2003, p. 50). Nevertheless, in the midst of growing debt and aid dependence, fiscal indexes was showing an upwards trend giving hope for recovery of the Ghanaian economy. The inflation rate of 122 per cent in 1983 was down to 10 per cent in 1992 (Leith & Söderling, 2003, p. 51). It was in part due to the political stability and the strong grip of Rawlings and his elite.

Unfortunately, after the election in 1992, the positive signs of the fiscal indicators stopped. It is generally agreed that the deterioration in economic growth was the result of political reform, which was imposed by the IMF as part of their conditions (Whitfield, 2005; Iddi, 2013¹²⁸). The political transformation negatively influenced Ghana's economy in a few ways. First, after the democratisation, policy priority was switched from economically driven projects to politically driven spending. Development strategies also became politicised. According to Whitfield (2005, p.656), "the Task Force leader, the group took a conscious decision to keep a low profile in the context of the approaching national election, so that Ghana's Paper would not become identified with the Rawlings government and thus risk being terminated if there was a change of government." Secondly, Ghanaian businesspeople associated themselves with a particular party

¹²⁸ Lecturer, Department of Political Science, University of Ghana, Accra, Ghana at the second interview on 24 May 2013.

and whenever that party won, they were awarded deals in preference to people associated with other competitive parties. Businesspeople in Ghana prefer to forge informal relations with ministers instead of joining pressure groups, and Booth (2005, p.6) notes that this is “a telling indictment of the new political economy of Ghana.” Thirdly, imposed political reforms brought about sudden changes in public administration. Ghana’s decision-making process under the PNDC was centralisation in an authoritarian bureaucratic manner. This centralised, secretive and “institutionless” style of aid negotiation did not leave a lot to learn for the following NDC administration. Up to date, the NDC lacks “the organisation, personnel, skills and motivation to negotiate effectively with a myriad of donors” (Whitfield, 2010, p. 726).

The democratic NDC was as aid-driven as the PNDC, under which Ghana became the most aid-dependent country in Africa in terms of per capita-aid ratio (Boafo-Arthur, 1999, p.87). According to Toye (1991), the IMF and World Bank were able to dominate policy bargaining after 1982 because their Ghanaian counterparts did not push their own policy agenda. Without an effective economic planning and aid coordinating system, the NDC, just like the PNDC, struggled to take the initiative in aid negotiations, regarding the economic development plan. A new department (International Economic Relations Department) to promote aid negotiation was set up in the Ministry of Finance for more systemised and centralised aid negotiation and management; however, it was not effective and the donor agencies continued to contact line ministries. Of course, those line ministries welcomed the old routines as well, since they could get more leverage and privileges (Aryeetey & Cox, 1997). In 1994, the NDC established another administrative organ of the National Development Planning Commission for long-term economic development, but this understaffed Commission still does not have sufficient authority within

government (Whitfield & Jones, 2008, p. 8).¹²⁹

In conclusion, the loss of political autonomy, which came after conceding economic autonomy and people's autonomy, reinforced the path of aid dependence in Ghana. The path of Ghana's aid diplomacy since 1983 aggravated the process of abdicating autonomy on behalf of survival of elites against internal enemies. This allowed ever-increasing donor involvement in Ghana's national policy making. Whitfield (2005, p. 643) argues that the expanding degree of donor intervention in Ghana in the 1990s has three different causes. First, increasing aid-dependence since the 1980s, second, increased donor coordination, and third, broadened donor agendas from good governance and to civil society. By the examination of the reinforcing path of growing indebtedness in Ghana, the thesis argues that the growing aid dependence and donor intervention was possible only because the elite in Ghana chose to receive more aid in exchange of abdicating national autonomy. In what follows the thesis examines the political economy of the path of indebted mercantilism.

¹²⁹ The Ghanaian government is working on the draft of the principles of aid negotiation, (provisionally titled *Ghana Aid Policy and Strategy*) for line ministries at present (2013 May), which is not open to the public yet (Mamudu, 2013).

5.4 The Political Economy of Indebted mercantilism

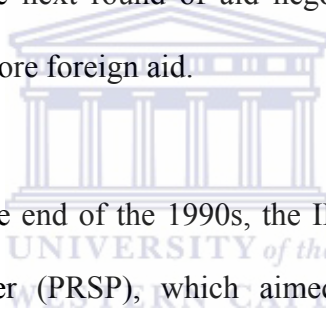
5.4.1 The debt elite

Armstrong (1996, p. 1), in an external report for the World Bank, praised the role of the elite in Ghana in the implementation of the World Bank conditions and stated that the most decisive contributing factor of the structural adjustment between 1984 and 1992 was “continuity and competence of the core group” of Ghanaian officials. The core group, i.e. the elite, however, led Ghana to the path of aid dependence based on their perception of foreign aid as indebted mercantilism. Hence, this thesis refers to them as ‘the debt elite’.

For the debt elite, the goal of aid diplomacy is to receive as much as possible aid.¹³⁰ Therefore, for the debt elite, what to do with the aid matters less than how to win the aid. Looking at the process of economic planning and aid negotiation between 1982 and 1983, Ghana did not have any concrete economic plan before the aid agreement was reached. Rather, Ghana’s economic plan was the product of aid negotiations. Ghana’s Economic Recovery Plan, which became a backbone of Rawlings’s national economic plan, was based on the proposal that Ghana had to submit to the IMF to receive as much aid as possible. Since the credit itself was the ultimate

¹³⁰ The definition of foreign aid by the DAC also motivates the debt elite to focus less on economic development and more on staying aid-dependent. The DAC delimits the list of countries eligible for ODA. These include all low and middle-income countries based on GNI per capita categorised by the World Bank and all Least Developed Countries (LDCs) defined by the UN. The LDCs are 33 African countries, 14 Asian countries, and one Latin American country. However, the national categorisation which is convenient for donors does not motivate recipient countries to grow their economies. Rather, it perpetuates aid dependence. When a country in the LDC list meets the conditions for graduation from that list through sustained economic and social growth, the country loses the beneficiary status of ODA, which is a big blow to its still fragile growth and to its economy. Indeed, when the government of Laos showed a commitment to graduate from LDC status and announced a plan for its graduation, a UN official explained it as a unique and unprecedented move when “our experience is that all of those countries so far who have been identified as potential candidates for LDC graduation have resisted this” (IRIN, 2012). This explains why there are only three countries (Botswana, Cape Verde and Maldives) to date which have graduated from the LDC list.

goal for the debt elite, they perceived the long-term national economic plan amendable depending on the amount of aid Ghana would receive as a result of the negotiation. In other words, instead of aid being a tool for economic development, for the debt elite economic development became a tool to secure more aid. The vicious cycle of aid dependence starts at aid negotiation of the debt elite lacking concrete economic plans; the debt elite accept whatever economic development plans are imposed as long as the plan provides the most aid; the economic development plan which has already done its job of attracting foreign aid is poorly executed; the poor performance leads to aid ineffectiveness and perpetual aid dependence; and again, the debt elite enter into the next round of aid negotiations to ease the increased debt burden, in other words, to obtain more foreign aid.



To prevent the vicious cycle, at the end of the 1990s, the IMF and World Bank introduced the Poverty Reduction Strategy Paper (PRSP), which aimed to encourage ownership of aid management programmes and economic development plans in recipient countries and asked recipient countries to come with their own PRSP to receive more aid or to get debt cancelled. The new initiative aimed for recipients to produce country specific, result-oriented, and long-term development plans which were focused on partnership between donors and recipients. Even though PRSP has an intention of “made by recipients on their own”, the Bretton Woods Institutions are involved with the whole process of preparation of the PRSP and there is no substantial change in respect of absence of ownership or autonomy of recipients (UNCTAD, 2002; Whitfield 2005; Abrahamsen, 2004). In Ghana, the National Development Planning Commission (NDPC) is dealing with the PRSP, and ministries were not eager to cooperate with the NDPC regarding PRSP until they learned that it was directly related to future funding (Woll,

2008, p.76).

In a similar context, Hutchful (2002, pp.40-41) claims that bureaucrats work only to please the eyes of bosses in Ghana. As soon as the boss turns his back, they begin to skive. According to him, the “eye service” of bureaucrats originates from “policy rent” in the Rawlings administration. The national budget was inadequate and salaries were not high enough to motivate state functionaries. They were not the ones punished or rewarded by the economic policies imposed by the donors. However, incentives and disincentives are critical in ensuring the loyalty of bureaucratic elites (Weber, 1968). According to Weber, the motivation for the Ghanaian state elite was the award of projects funded by foreign donors. Instead of a small salary, the state elite in Ghana sought the incentives of getting access to foreign credit from aid projects. In the process, policy reforms turned to the ultimate form of rent-seeking, and state elite work only as much as they needed to meet the minimum requirements to keep access to foreign credits. Consequently, the main emphasis was on accepting foreign aid projects wherever possible. Instead of long-term government development plans, short-term projects with results that satisfy donors became more important. Whitfield and Jones (Whitfield & Jones, 2008, p. 4) argue that these dynamics gave rise to the “default program” where a ministry negotiates to win, not because it is particularly necessary or in line with a ministry’s policy, but because it comes with foreign financial resources.

Other than a simple lack of interest of the elite in projects that are not directly related to foreign funding, there are a few more reasons for the limited aid diplomacy in Ghana. Whitfield and Jones (2008, pp. 20-21) suggest three reasons: (1) the “lack of strong, unified party position” of

NPP; (2) “systemic factors” such as poor working conditions and consequent lack of motivation and high reliance on special advisers, and (3) “imbalance of resources” between donors and Ghana. Government officials involved in aid-negotiation say that there always have been government attempts to “systemize our (Ghana’s) relation with donors” (Kyeremeh, 2013).¹³¹ The Government Partnership Compact is one of those attempts in which the Ghanaian government aims to set up a baseline for the aid negotiations which have taking place sporadically in line ministries (Government of Ghana, 2012). However, the Ghanaian government, at this time, does not have a firm blueprint for aid negotiation for line ministries. At present, the provisionally titled *Ghana Aid Policy and Strategy* is at draft level (Mamudu, 2013).

Today, the Ghanaian government does not question what Rawlings did to Ghana (Iddi, 2013).¹³² Ghanaian government officials dealing with aid negotiations seem to have transformed the concept of “autonomy” in their minds. Lender conditionality imposed “*de facto* dependency” as they circumscribed the recipients’ decision-making autonomy (Corbridge, 1993, p. 186). However, the Ghanaian elite propagate the abdication of autonomy as “the legitimate areas of mutual interest” between the Bretton Woods Institutions and Ghana (Botchwey, 1997, p. 23). Ghanaian aid negotiators not only take conditionality for granted but even welcome it and feel that conditionality is sometimes necessary, as one Ghanaian aid negotiator said:

Conditionalities are there for reasons. It looks bad. Conditionalities are bad. But sometimes they are there for good purpose, especially in our part of the world where

¹³¹ Ghanaian government schedule officers for France, Germany and the Netherlands Unit, the Ministry of Finance, Interview conducted at the Ministry of Finance, Accra, Ghana on 24 May 2013.

¹³² Lecturer, Department of Political Science, University of Ghana, Accra, Ghana at the second interview on 24 May 2013.

corruption can be something that can be done easily....Sometimes it also helps stem the persistence of corruption in projects. However, like I said, our aid policy is making preference for budget support which gives government in determining which sector to be supported how we want to do it.¹³³

In conclusion, the debt elite find the highest priority in obtaining foreign financial capital and thus, they are willing to abdicate national economic development or autonomy if they can receive more funding. For the debt elite, securing foreign funding is the ultimate tool for their mercantilist survival, hereby the thesis named it indebted mercantilism. In what follows, the thesis discusses the political economy of indebted mercantilism.



5.4.2 Indebted mercantilism

Indebted mercantilism came from a sense of being threatened by enemies within. There were at least twenty small and big coup attempts between 1983 and 1986 including the plot to assassinate Rawlings in January 1985 at Kumasi¹³⁴, and in December 1985, three members of the Ghanaian Democracy Movement, an exile opposition group based in London, were arrested in the US for buying missiles and other weapons to overthrow the PNDC (Akonor, 2006, pp. 90-91). The enemies were within the regime and they were perceived as a threat by the ruling elite. However, instead of defining them as a threat to the ruling elite themselves, they borrowed mercantilist interpretation. To elite in Ghana, protecting their security and advantages meant

¹³³ Ghanaian government schedule officers for France, Germany and the Netherlands Unit, the Ministry of Finance, Interview conducted at the Ministry of Finance, Accra, Ghana on 24 May 2013.

¹³⁴ Kumasi is the second largest city in Ghana located in 270 km north of Accra.

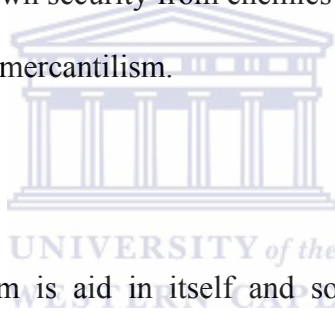
protecting national security and wealth. Three variables thus connected to form a political economy of indebted mercantilism in Ghana. These are:

(a) National security

For Rawlings and his close elites, their own security against potential enemies from inside was the top priority. In the Rawlings's regime, the security personnel served as a modern-day variant of praetorian guards protecting the elite security instead of national security (Ansah-Koi, 2007, pp. 188-189). The prime example is the Force Reserve Battalion (FRB). The FRB was established to protect Rawlings and his close courtiers from potential military coups by regular armed forces. These praetorian guards were trained in Cuba and always well-equipped even when ordinary Ghanaian troops were deprived of live ammunition especially in the mid-1980s. In addition, the size of the FRB was too small to repel a full-scale attack to the regime, but big enough to counter rebellious sections of the regular armed forces (Nugent, 1995, pp. 122-123). In short, the FRB was not established and maintained for the national security of Ghana. It was set up to protect the security of the a few elites against their potential enemies within the regime.

However, in order to keep the special unit of the FRB, the elite needed to propagate the concerns for security of the elite as a matter of national security to be legitimate in the public eye. In order to transform the elite security to national security, the elite needed a threat to national security instead of a threat to the ruling elite so that the elite can justify their preoccupation with their own security as mercantilist concerns for national security. However, unfortunately to the elite, Ghana did not have a significant national threat, like China was to Taiwan or North Korea to South Korea. Therefore, according to Nugent (1995, pp. 123-124), the Ghanaian elite fabricated

a conspiracy theory by making the Central Intelligence Agency (CIA) in the US a threat to Ghana's security. For instance, Kojo Tsikata, the representative military elite in the Rawlings's regime and then Special Advisor to the PNDC appeared on television and "released information of alleged activities of senior foreign diplomats and intelligence agencies against the Ghana government" arguing that "there was abundant evidence of such activities in writings of former CIA employees" (West Africa, 1983, p. 872). In the end, this incident ended in demanding apologies without proving any serious links. In conclusion, the elite in Ghana used the mercantilist concern for national integrity and the revolutionary spirit of grassroots, but what they were committed to was their own security from enemies within the regime; the conflation of the two is key to Ghana's indebted mercantilism.



(b) National wealth

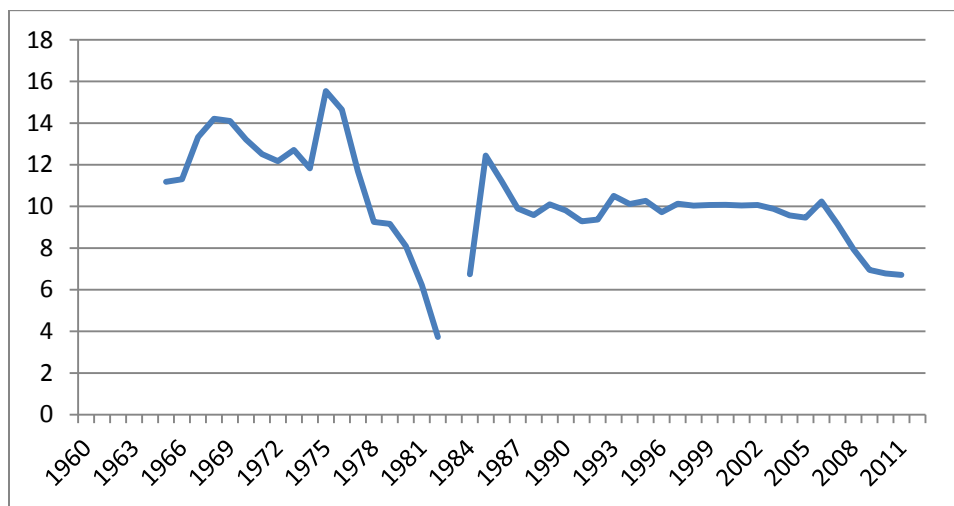
The goal of indebted mercantilism is aid in itself and so the development agenda became politicised. As a result, instead of restructuring national industry, a regime will choose measures that can bring them more monetary benefits. In the Rawlings regime, in the initial period of his rule, politicisation took place with the urban population which was the regime's support base. However, in common with most countries which export commodities and import manufactured products, the rural areas of Ghana were the source of national income. Therefore, the political elite exploited rural producers to support urban residents and to relax trade deficits. The elite elsewhere in tropical Africa exploited the rural population in the same way and ultimately hindered national economic growth (Bates, 1981). After Nkrumah passed the Cocoa Duty and Development Funds Bills in 1954, government froze the price of cocoa from farmers and sold it on the international market at a much higher price. The large margin from the cocoa trade was

used to subsidize urban residents who were the political power base of politicians in Ghana. Since the rural agricultural industry was supporting urban residents, industrial restructuring was not an option for the debt elite to take.

The politicisation of development plans became aggravated when Ghana turned to a new political system in 1992. Government, instead of putting money and effort into economic structural reform, put its efforts into (aid-funded) high profile projects (Booth, 2005, pp.4-5). As a result, Ghana's economic growth was not from restructuring national industries. Ghana's economic structure has barely changed since its independence in 1957 as shown in Figure 5-3, manufacturing ratio to GDP. In fact, according to World Development Indicators, the ratio in Ghana decreased from 10 per cent at independence to below 8 per cent in 2012. Even though the African continent, including Ghana, has been enjoying attention as a new frontier market with more than 5 per cent annual economic growth, double the world's growth rate, this does not necessarily signal any real structural change.¹³⁵ Ghana's economic growth, without restructuring cannot alleviate high unemployment. Also, the export of raw commodities, without manufacturing, fails to bring in technology transfer, jobs creation, and value addition (Schneidman & Westbury, 2013, p. 21).

¹³⁵ In order for an industrial structure to transform, "distance diversification" is necessary. Nearby diversification, e.g. when a factory producing shirts expands its product line to overcoats, is neither costly nor risky. On the other hand, distant diversification from shirts to steel goods demands large investment including more social infrastructure. This high risk distant investment is, in many cases, more efficient and feasible through government intervention (Wade, 2007, p. 5).

Figure 5-3. Manufacturing ratio to GDP



Source: World Bank Development Indicators (2014)

The indebted mercantilist foreign policy change in Ghana delivered a different type of industrial transformation. A by-product of policy change which lacked long-term planning and a sense of ownership led to “pathological de-industrialisation”, and it consequently undermined long-term economic growth potential (Dasgupta, 2006). Today, Ghana set a long term development goal of a per capita income of \$3,000 by 2020 but its economic structure is not particularly different from that in the early 1960s. Main sources of foreign currency are still gold, cocoa, timber, diamonds, bauxite and manganese. Agricultural commodities still account for 30 per cent of exports and subsistence agriculture accounts for 35 per cent of GDP and 55 per cent of the work force (Senadza & Laryea, 2012).

Instead of restructuring the national economy, indebted mercantilism meant that Ghana became the African darling of foreign investors. Ghana showed a notable degree of compliance with the IMF conditions insofar as the IMF praised Ghana as the most successful African adjuster

(Akonor, 2006, pp. 88-89). This outstanding level of compliance made Ghana one of the attractive places to do business for foreign companies. Multi-National Enterprises (MNEs) in Ghana found that Ghana's macroeconomic and political environment was the most attractive factor that made them locate to Ghana. According to a survey conducted in 2008, representatives of nineteen out of 54 MNEs in Ghana reported that they decided to locate to Ghana for that reason (Barthel, et al., 2008). As Ninsin (1991, p.54) argues, the structural adjustments that Rawlings accepted as conditionalities in 1983 met the interests of external capitalists. If the IMF had not imposed macroeconomic and political reforms, these survey results would not have been quite unlikely. In addition, instead of restructuring of the national economy, mere change of ownership of assets from local people to foreigners took place. Consider the example of the mining sector: here, the Ghanaian government controlled at least 55 per cent of mining enterprises before the SAPs, but now Ghana's mining ownership structure is pyramidal with 85 per cent in the hands of foreigners leaving the remainder of 15 per cent to the Ghanaian government small-scale local miners (Ahiadeke, et al., 2013, p. 35; Akabzaa, 2001, p.25).¹³⁶

However, local businesspeople tell a rather different version of the business environment in Ghana. While the business environment created or readjusted by the Bretton Wood Institutions was favourable for MNEs or foreign investors, it is less so for local Ghanaian industries. Instead of setting up a favourable macroeconomic and political environment conducive for growing local industries, the external conditionality and indebted mercantilism of the Ghanaian elite generated

¹³⁶ The major foreign players are from Canada, Australia, and South Africa followed by the US, UK and China. The Ghanaian government has a 10 % share in every enterprise and an optional right to buy an additional 20 % at market price (Akabzaa, 2001, p.25).

a friendly economic and political atmosphere for foreign companies. Today, access to financial credit is still the biggest obstacles that local businesspeople face in Ghana (Ayim-Darke, 2013).¹³⁷ According to results of a survey conducted by the Association of Ghana Industries (AGI), in the fourth quarter of 2012, small and medium enterprises found access to credit to be their biggest challenge whereas large firms stated that poor electric power supply was their main obstacle (AGI, 2013).

(c) Growing aid dependence

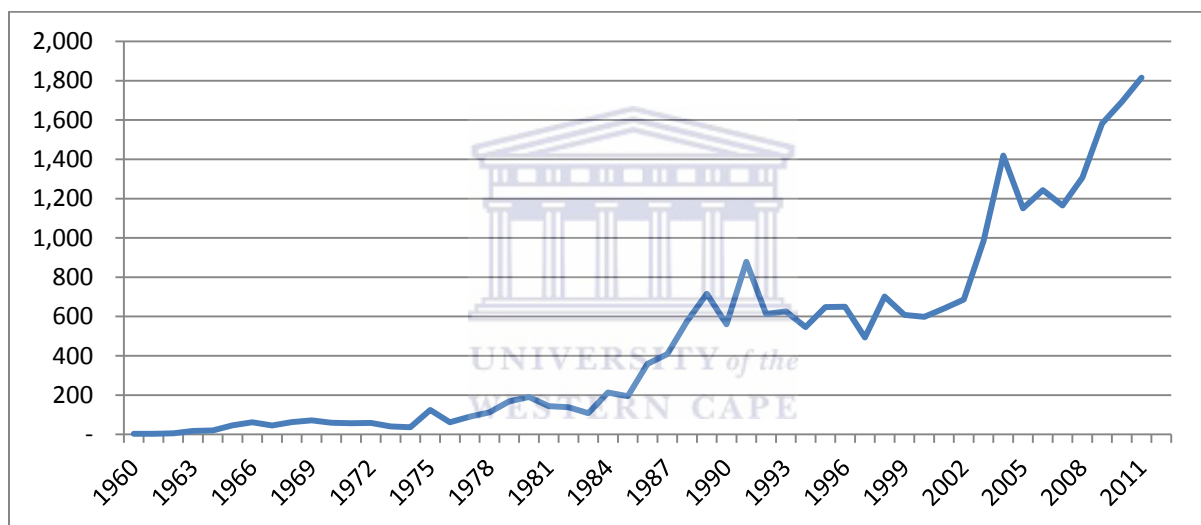
Even though foreign policy has been driven by economic goals since 1983, many observers contend that 1983 was a year marking the origin of Ghana's aid dependence (Whitfield & Jones, 2008). However, that does not mean that Ghana was economically independent or viable before the Rawlings era. As shown in the Figure 5-4, Ghana remained in debt since the 1960s, but from the early 1980s, Ghana fell into the trap of serious aid dependence due to the character and the amount of debt provided by the IMF and the World Bank. Rawlings's foreign policy change in 1983 was a critical juncture that led Ghana to aggravating aid dependence and Ghana fell in the vicious spiral of servicing and borrowing. Based on World Development Indicators from the World Bank, Ghana has been receiving ever growing foreign aid: from \$90 million in 1977, \$213 million in 1984, \$878 million in 1991 and to \$1.8 billion in 2011, while paying back \$37 million in 1977, \$108 million in 1984, \$293 million in 1991 and \$344 million in 2011. The debt service, as a consequence of extensive borrowing, reached up to 45 per cent of total export of goods and services in 1987 from 3.7 per cent in 1977 as shown in figure 5-5. The debt to GDP ratio, which

¹³⁷ Interview with Humphrey Ayim-Darke at his office in Association of Ghana Industries, Accra, Ghana on 13, May 2013.

was less than 5 per cent in 1982, went up to 80 per cent around the time when Rawlings changed the Constitution for democratic political reform. In 2000, the ratio reached 160 per cent and in 2002 Ghana finally came to sign up to become one of Highly Indebted Poor Countries (Leith & Söderling, 2003, p. 50).

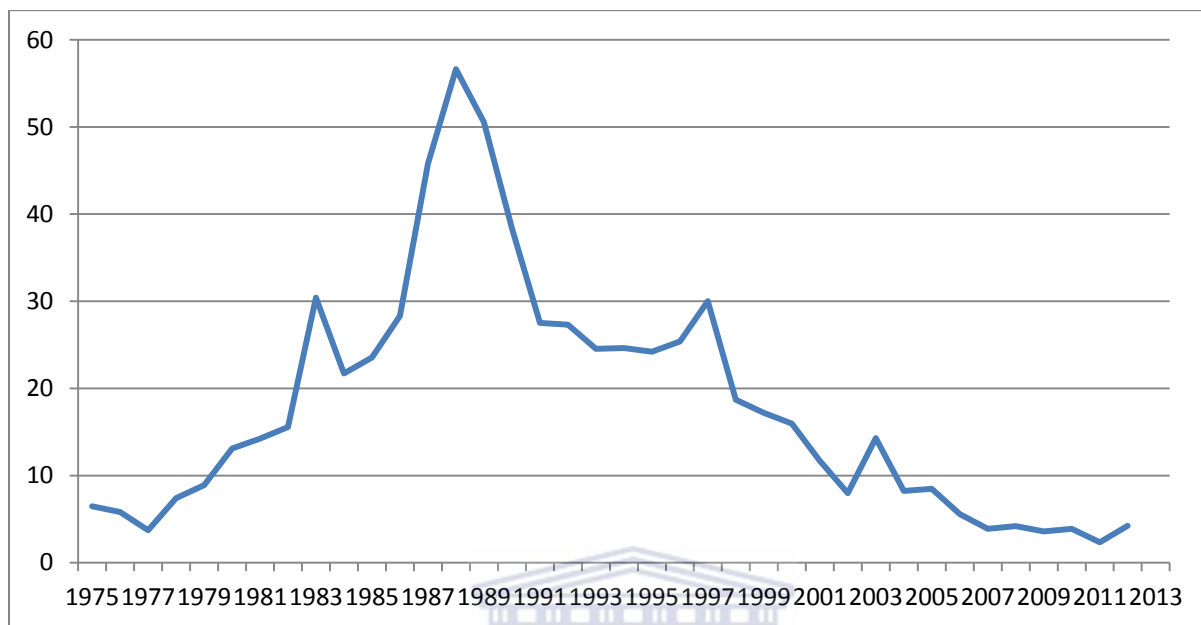
Figure 5-4. Total ODA and Official Assistance Received, Ghana

Unit: \$ Million



Source: World Bank Development Indicators (2014)

Figure 5-5. Debt service ratio to export of goods and services (%)



Source: World Bank Development Indicators (2014)

Indebted mercantilism in Ghana opened an era of abdicating autonomy and growing debt to foreign entities. The dismal annual economic growth rate of 1.5 per cent between 1970 and 1983 went up to consistent 4 per cent to 6 per cent growth for more than two decades as shown. However, apart from severe socio economic damages to the Ghanaian population which was caused by neo-liberal adjustment programs, the structural dependency of the Ghanaian economy was not improved and external debt grew (Gyimah-Boadi, 1993, pp. 9-10). Moreover, the positive effect on the macroeconomic position did not lead to the sustained inflow of foreign exchange. As a result, Ghana had to return to the original donor-recipient cycle with increased and broadened donor intervention. The growth contained much borrowing insofar as Ghana was listed as a Highly Indebted Poor Country (HIPC). Even though debt cancellation of the HIPC programme eased Ghana's debt profile temporarily, Ghana's economy is still regarded as risky

and it is still suffering “sizeable fiscal and external imbalances” created by high government spending such as wages and electricity subsidies, and “high interest payments on public debt” (IMF, 2013).

5.5 Conclusion

When Ghana changed its foreign policy direction, its economic situation was indeed grim as it had only \$33 million in disposable foreign exchange which was merely enough to cover two weeks of imports. Facing such an economic conundrum, the Rawlings regime had to deal with other challenges such as its declining popularity, and lack of financial support from international communist states due to the Cold War coming to an end. Against this background, Rawlings and the elite in Ghana redirected its foreign policy towards pragmatism and toward the West in 1983. The foreign policy change in 1983 reflects indebted mercantilism as constructed by the Ghanaian elite.

Rawlings’s foreign policy was a critical juncture in Ghana’s path to aid dependence in two ways. First, following the foreign policy change, Ghana’s economy became aid-dependent on a full scale. Much of the foreign aid earned from the redirection of foreign policy was not spent on relieving its severe economic conditions. Most aid left Ghana almost as soon as it arrived, as it was used for debt repayment. Ghana had to pay off the old loans (thereby meeting the imposed condition of its donors, mainly the Bretton Woods Institutions), in order to solicit new foreign aid or credit and to reschedule its debts. The vicious spiral of robbing Peter to pay Paul, by paying

back previous debts with newly earned foreign aid, has been a key aspect of Ghanaian foreign policy (Shillington, 1992).

Secondly, Rawlings's foreign policy shift opened the path that allowed a foreign entity to dictate domestic affairs in exchange for foreign capital. This offset between money and autonomy is more fundamental and irreversible than simple fiscal deficits. In an effort to meet the standards demanded by the creditors as a condition for more aid, the Ghanaian government conceded its autonomy on domestic economic policy. Ghanaian economic policy came to conform to the demands of the international creditors and the conditions attached to the loans. The abdication of national autonomy did not end there. It also extended to conceding political autonomy in 1992. Being devoid of economic and political autonomy, the elites and bureaucrats in the country lacked a sense of ownership in the economic development plan. Instead of being motivated by making and managing the necessary long-term economic policies, the elites in Ghana indulged in patron-client politics which replaced motivations and rewards in a bureaucratic system.

The critical juncture was made by the debt elite in Ghana who chose to adopt a neo-liberal economic development strategy. The decision came from the fights against enemies within, and in the course of the fights, the elite decided to choose foreign aid and their own security in exchange for national autonomy, ironically, on behalf of national economic development. The ultimate end is money itself despite the fact that fancy words were employed: financial capital for economic development, youth education, gender equality, poverty alleviation, and the like. Thus, autonomy of domestic affairs can be foregone as long as foreign financial resources are secured in order to secure the interest and security of the elite. In the process, the elite invoked

mercantilist applications to serve their interest. The military coup to obtain the power of the elite was dubbed a people's revolution. A small praetorian guard was established to protect the elite in the name of national security against imaginary international threats. Democracy was claimed to be adopted because Ghanaian people were ready but indeed it was a mere transformation of the ruling elite with their power and interest intact. Nationalism was asked from Ghanaian people, but "all his (Rawlings's) calls for national unity is (was) a hoax" (Ampadu, 1992, auoted in Nugent, 1995 p.214). Instead, in every mercantilist decision seemingly made on behalf of strengthening the state, national autonomy was abdicated and foreign currency was received. Hence, the thesis coins the term indebted mercantilism to label this process.



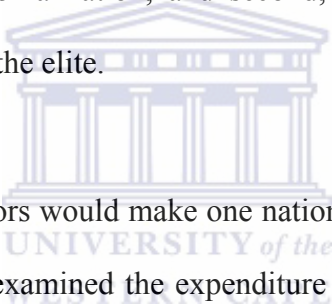
Chapter 6 Conclusion

6.1 Summary of the argument and main findings

New states that became independent from colonising powers after World War II suffered the daunting task of making the transition from nominal to real independence both politically and economically. To fulfil this task, most new states chose an idealistic foreign policy in the beginning. However, at some point, it became apparent that political independence did not guarantee economic independence, and most countries, at some point, made their first foreign policy shift from an idealistic to a pragmatic one focused on economic gains. In most poor new states, the economic gains meant foreign financial capital or foreign aid since their domestic financial capacity was too limited to encourage sufficient economic growth. As with strong countries, small countries also seek economic gain for survival. In this sense, this thesis borrowed the framework of mercantilism to understand the foreign policy shift toward economic gains in aid-recipient countries.

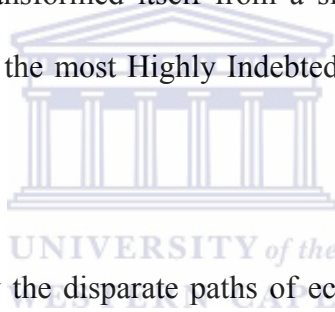
Nevertheless, mercantilism has rarely been used to account for the foreign policy of aid-receiving countries and instead, ideas of two dominant schools have mostly been used: a consensus model and a compliance model. The latter highlights the role of aid as a reward given by rich countries in order to influence the policy of recipients. The former focuses on the common interests of the bourgeois class in both the donor and recipient countries. However, these two schools of thought do not fully explain the complexity of foreign policy of aid-recipient countries; in addition to international factors, domestic factors play an important role in foreign policy making.

However, the thesis does not apply the simple understanding of mercantilism as a philosophy of ‘beggar thy neighbour’, which mostly applies to developed states. Instead, the thesis focused on the duality of mercantilism in order to explain ‘why beggar nations beg.’ As Foucault (1991b, p. 97) notes, mercantilism is “rationalisation of the exercise of power as a practice of government.” In other words, despite the fact that mercantilism is used as a principle of state behaviour, in fact it is only a tactic of the ruling elite and the ultimate advantages of the mercantilist policies go to the elite. Thus, the thesis approached mercantilism as having two dimensions: first, the conventional notion of mercantilism, namely as state behaviour intended to maximize the wealth and power of a nation, and second, as a tactic of the elite aiming to maximize the wealth and power of the elite.



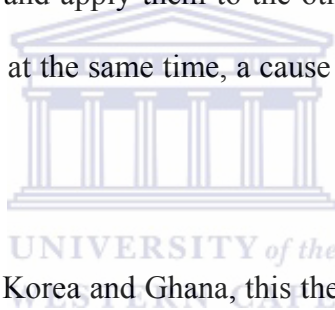
The thesis also looked at what factors would make one nation stop begging while another nation carried on. To do this, the thesis examined the expenditure side of foreign aid. Excluding the issue of quantity of aid, aid can affect the economy of recipient countries through three different routes: government procurement, the exchange rate, and expenditure (Choi, Sang-oh, 2005). Among those three, despite its critical impact on aid management and economic growth, expenditure of foreign aid has been less studied and this is partially due to difficulties in measuring. The thesis argues that the expenditure of aid is decided by the state’s elite based on their perception of foreign aid: what is foreign aid, why do we need it, and what are we going to use it for? The elite’s perception of foreign aid affects expenditure, and as a consequence, it shapes a path of aid management through repetitive expenditures and through spill-over effects. The process of repetition and reinforcement leads a country either to aid independence or to perpetual aid dependence. In short, elite perceptions of foreign aid results in path-dependence.

The thesis studied two countries to examine the path of aid dependence: Korea and Ghana. When Korea ended the Korean War in 1953, it was the second poorest country in Asia with only Bangladesh being poorer. It was also poorer than Cote d'Ivoire and Congo. In comparison with the unpromising start of Korea, the situation in Ghana was far better. Ghana was a beacon of African hope and a bright future not only because it was the first independent country in Africa, but also because it had the biggest economic potential in Africa excluding South Africa. Since then, sixty years have passed by and today, Korea is the 9th largest exporting country and the first and the only nation which has transformed itself from a significant aid beneficiary to an aid donor. In contrast, Ghana, one of the most Highly Indebted Poor Countries (HIPC), has been running on foreign aid up to today.



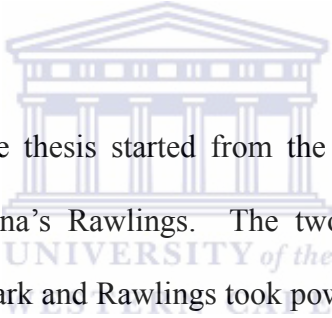
Many observers were intrigued by the disparate paths of economic growth and these two case studies have been examined from various perspectives. In examining the economic growth of Korea and by extension East Asia, economic liberalists emphasises the free market while statist see strong government intervention as a source of that growth. Some observers see culture as a decisive factor (Tu, 1988; Nam, O-yul, 2011). In contrast to the East Asian region, which has been examined in a search for factors contributing to economic growth, Latin America and, more frequently, Africa have often been approached to find out what hinders economic growth. Werline (1994) have compared Korea and Ghana and see commitment of political leaders as a key factor that made for economic growth. Dependency theorists found the root of economic backwardness in the colonial legacy and a perpetual post-colonial link between the industrialised world and former colonies (Baran, 1957; Frank, 1969).

However, as many development writers point out, one single factor is not sufficient to explain such a complex process as economic growth or aid dependence. Aid dependence is a product of interactions among various societal, historical, geographical, political and international factors. This complexity is well understood and so this thesis does not aim to explain the multi-factored phenomena of aid dependence by using only the one dimension of elite perception of foreign aid. Rather, the thesis highlighted an overlooked role of foreign aid policy in recipient countries and the elite perceptions behind it, in the context of aid dependence. In addition, the thesis did not aim to take lessons from one case and apply them to the other case since, as mentioned above, aid dependence is an outcome and, at the same time, a cause of complex factors of a society and history.



Instead, by examining the cases of Korea and Ghana, this thesis focused on how elite perception of foreign aid contributes to path dependence of aid (in)dependence and pointed to some historic events as illustration. The thesis shed light on the overlooked dimension of elite perceptions of foreign aid that allowed for a drastic change in foreign policy and a path with respect to aid dependence. In order to examine the elite's perception of foreign aid and its path, the thesis focused on the time of the first foreign policy redirection from ideology to pragmatism. A foreign policy which is changed, then adopted and implemented has a stronger binding impact than a domestic policy since it is an agreement between more than one state or international actor. The role of foreign policy was examined in the context of the literature on path dependence. Despite its decisive influence, literature that seriously questions the path between foreign policy and economic growth or, more specifically, the path between foreign aid policy

and aid dependence is lacking. In Korea and Ghana, the respective foreign policy changes were the fulcrum on which subsequent economic policies were built. Foreign economic policy, especially in developing countries, has a critical impact on subsequent political and economic policies. It locks in or locks out relevant domestic economic policies. A foreign policy change becomes a critical juncture of a subsequent path of aid dependence because it narrows down future policy options. The thesis, therefore, examined the historic events from foreign economic policy change to economic growth within the theoretical framework of path dependence: initial condition, critical juncture, self-reproducing sequences, reactive sequences, and historical lock-in.



In order to examine the paths, the thesis started from the critical juncture of foreign policy change of Korea's Park and Ghana's Rawlings. The two regimes share a few significant similarities and disparities. Both Park and Rawlings took power by military coup. They took off their army uniform, got elected as civilian leaders and remained as heads of their respective states for nineteen years. More significantly, during their rule, they both changed the foreign policy of their respective countries radically and embraced previously perceived enemies in search for economic aid.

Indeed, Park and Rawlings were the first political leaders to redirect the basis of foreign policy in Korea and Ghana from an ideology oriented foreign policy to a pragmatic one. When Park took power in 1961, Korea, which had been invaded by North Korea and had gone through the 3-year-long Korean War, was still under the threat of its invader. The North economically outperformed South Korea and was far more industrialised than the South. The elite in Korea needed a

financial source to reduce the threat of North Korea. In Korea, pragmatic foreign economic policy rarely existed in the first two Republics. It was Park's regime that made a drastic foreign policy decision based on pursuing economic gains. Likewise in Ghana, the history of its foreign policy can be divided into two phases, distinguished by Rawlings's foreign policy change: from independence to 1983 and from 1983 to now. In the first phase, ideology determined Ghana's foreign policy. The foreign economic policy of Ghana had been "the by-product of formal political interactions of Ghana with the international system" until 1983 when "the pursuit of an overly aggressive foreign economic policy" was first put in place (Boafo-Arthur, 1999, p. 73). The Rawlings regime initially declared 'war' against the West and the US in particular and maintained strong ties with anti-US countries such as Nicaragua, Cuba and Libya. However, when facing an unprecedented economic plight, Ghana realised that the Eastern bloc was not a reliable aid source. This coincided with the demise of the strong leftist elites in Rawlings regime which was becoming a threat to the survival of Rawlings. At last, Korea normalised its severed diplomatic relations with Japan, a historic foe of the Koreans, and Ghana turned to the West, the former rhetorical enemy of Rawlings and of his political support base. In both cases, the redirection toward foreign economic policy was driven by mercantilism: the need for survival of the state and the elite.

However, even though the foreign economic policy in Korea and Ghana are ostensibly mercantilist, fundamental differences are evident. The elite in Korea saw 'industrial mercantilism', which emphasised the supremacy of manufacturing over agriculture or wealth itself to be a tool to their survival. On the other hand, the elite in Ghana found inflow of foreign aid itself as their way to survival in which the government's choices were driven by the pursuit

of more aid to pay down or to reschedule outstanding debts. Thus, the thesis named such elite perspectives in Ghana ‘indebted mercantilism’. With indebted mercantilism, aid in itself becomes the goal of foreign policy.

In Korea, before Park took power, the two previous regimes were not strong enough to control and to take the lead in restructuring the national economy. The Korean population were still living in dire poverty and its economy was dependent on foreign aid. In 1957, aid accounted for 27 per cent of GDP and there was no significant manufacturing base. In contrast to the struggling South Korea, North Korea was making relatively good progress in economic growth, especially in manufacturing. Park’s regime, which took power by military coup in 1962 saw industrialisation as a national strategy for the survival the elite that could legitimize the military regime and began its search for financial capital for industrialisation. Park’s regime first approached the international consortium for rebuilding Korea’s economy for the funding to cover the first Five Year Economic Development Plan (FYEP). However, no country readily offered the much-needed capital to the poverty-ridden and war-torn South Korea.

Park’s regime found the breakthrough in diplomatic normalisation with Japan. The steps towards normalisation had been made since the first Republic but without much progress due to the personal and emotional legacy shared by the two populations. Instead of adhering to the nominal term of ‘compensation’, which became a stumbling block since the Japanese government resisted the term, Park’s negotiation team suggested receiving Japanese monetary aid in the name of ‘economic cooperation and development.’ At last the two countries signed a treaty of diplomatic normalisation with \$300 million of economic cooperation in the form of grants and \$2 billion in

low long-term, low-interest loans.

It is generally agreed that the success in the Korea-Japan negotiation was an outcome of shared interests. Besides the strong will to reach agreement from the Korean side, there were some critical international factors such as the role of the US. The US government recognised the necessity of rebuilding the economy of Korea which was adjacent to Communist North Korea. The US wanted to share the burden of resuscitating the Korean economy with Japan whose economic power was already on the increase. The Japanese elite did not want to lose favour with the US because of the threat of growing Communism in the neighbouring Chinese mainland and North Korea. In addition, they felt that Park's regime, which was desperately seeking money, would be a good partner to complete the negotiations at the lowest price. Park was searching for foreign capital for industrialisation and economic growth that could make his shaky political ground more solid and legitimate (Chung, Il-joon 2005, p.70). For Park, reaching economic goals meant more than just pledges declared to justify the coup. Fast economic growth was "the most attractive carrot" that the new military regime could offer to legitimize itself to the aspiring people (Kim, 1988, p. 212). Given those international situations, a number of scholars still point out the commitment of Park's regime as the most critical independent variable inasmuch as other international variables including the influence of the US had been constantly present since the first Republic of Korea (Yoon, Tae Ryong, 2008).

The path initiated by the critical juncture of Korea-Japan diplomatic normalisation was reinforced by some later events and institutionalisations of the elite's perceptions of foreign aid. The monetary support from Japan for the first FYEP was expanded to entail the support for

building a steel mill in the second FYEP. Korea was seeing a decrease in terms of trade in exporting light industry products created by the First FYEP. The path of restructuring was driven toward heavy and chemical industries. The commitment and will of Park's regime notwithstanding, the international creditors in western countries were not optimistic about building a steel mill in Korea partially due to the previous failures in India, Turkey, Mexico and Brazil; those creditors finally refused to fund the steel mill plan. However, in Park's regime, most of the elite in Korea believed that the way out of poverty was to apply the Japanese model of developing heavy and chemical industries (Kim, Chung-Yum, 2006, p.396). Lacking any other lenders, they turned to Japanese cooperation again. The imbursement of financial capital from the normalisation treaty was re-negotiated by the two counterparts and Japan agreed to offer technical support to build a steel mill and to reverse the expenditure of the money from agriculture to building that steel mill. There were annual meetings between Korea and Japan regarding the imbursement of the money and economic cooperation. These meetings extended to offering support for producing engineers and technicians by founding the first technical school in Korea. The status of technicians was secured by newly adopted laws and a system of national examinations.

The industrial mercantilism which shaped diplomatic normalisation between Korea and Japan was repeated and reinforced in following an aid-oriented foreign policy. Looking at each event of aid diplomacy and related policy development, one can observe some characteristics of the industrialising elite and industrial mercantilism in Korea. The elite in Park's regime comprised mainly of two groups: military and technocrats. First, the military group had experience in the Japanese army before independence and after independence they became one of the most

modernised professional groups in Korea, having developed advanced management and administration skills through fighting side by side with the US army during the Korean War. Among the military elite, the core group that led the coup with Park was the 8th class, and they shared an exceptional sense of unity and pride since they were the class who had the most casualties in the Korean War. More interestingly most of them were from poor rural areas. Korea at the time did not have any significant landed ruling class due to Korean War and subsequent land reform, and thus, the military elite did not have a vested interest in the old economic structure.

The other pillar of the elite in Park's regime was the technocrats who were recruited from abroad through the reverse brain drain project of the military government. PhD holders in Economics, Science and Engineering were recruited through concerted efforts by the regime which lacked the skills to draw up national economic plans or to implement them. The positions and autonomy of these recruits was secured. Instead of working for administrators, many of them were offered decision-making positions and others were offered research positions in a newly built national think-tank.

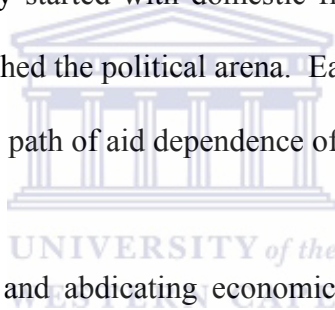
In addition to the composition of the elite, the type of nationalism of the elite is a key factor determining the path of industrialisation in Korea. Korean people are known to have strong nationalism. However, even though, the military elite made a big sacrifice during the Korean War, the nationalism of the military elite seems like a metamorphosis of opportunism of the time. Given the personal history of Park before he took power notably as an aspirational Japanese soldier and as a member of the secretive North Korean Communist party, the sincerity of his and

the military elites' nationalism is questionable. However, the opportunistic military elite saw industrialisation to be their way to survive in relation to the Korean populace and to the US, and they needed money and educated technocrats for their survival strategy. Ironically, in repatriating professionals from abroad (reversed brain drain), the military elite "appealed to their nationalism and patriotism" through individual persuasion (Yoon, 1992, p. 7), and the nationalistic repatriated technocrats became the foundation of the subsequent economic development path.

Nevertheless, the interesting combination of the two types of elites as a whole produced a typical "developmental elite" (Johnson, 1987, p. 140) in Korea who were created by a stable authoritarian regime. Cumings (1984) refers to Park's regime as a "bureaucratic-authoritarian industrialising regime" where "strong states direct economic development". The industrialising elite in Park's regime, as any developmental elite does, proceeded to legitimize themselves not by their political processes but by their economic performances. In the same vein, the industrialising elite in Korea were loyal and committed to a "benevolent dictator" (Barro, 1991a; 1991b).

The path that the debt elite shaped in Ghana from the point of the critical juncture is rather different even though both foreign policies were redirected to secure foreign aid. The foreign policy change in 1983 in Ghana is critical since it became a starting point of aid dependence. It is relatively easy to use numeric indicators to examine how the aid-directed foreign policy drew Ghana into a state of aid dependence. The 1983 foreign policy change, however, is more critical than changes in numbers on the fiscal balance sheet. The change became the critical juncture of

the path of aid dependence as it started a spiral of future deals that in effect exchanged autonomy to formulate and implement local policies with foreign aid as its aim. Bofo-Arthur (1999, p.74) argues that “the unprecedented cordial relations with the IMF and the World Bank” were “the outcome of political pragmatism or opportunism at the expense of traditional foreign policy concerns.” The loss of autonomy and its resulting impact is hard to trace since these outcomes are not easy to quantify in numbers. This explains the scarcity of literature dealing with loss of autonomy in a framework of aid dependence. In the case of Ghana, the thesis examined the overlooked trade-off between money and autonomy and the consequent path dependence of aid dependence. Abdicating autonomy started with domestic fiscal policies but soon expanded to economic planning and finally reached the political arena. Each event of abdicating autonomy in favour of foreign aid reinforced the path of aid dependence of Ghana.



Borrowing money from the IMF and abdicating economic autonomy was not Ghana’s post-independence leaders’ intention in the beginning, not even Rawlings’s. In 1981, Rawlings toppled the PNP of the Limann administration through his second military coup with the newly formed Provisional National Defence Council (PNDC) and reversed the West-friendly foreign policy of the previous regime. The PNDC expanded and rebuilt diplomatic relations with political comrades such as Cuba, North Korea and the Soviet Union and soon diplomatic missions seeking financial help were sent to the comrade countries. However, they were busy with their own domestic troubles and the dispatched missions came back home empty handed but with the advice that Ghana should seek help from the IMF.

Thus, Rawlings turned to the West in 1983 and this became the critical juncture of Ghana’s aid

dependence, and it was driven by Rawlings's tactic to survive against the enemies within the regime. When Rawlings took power he was a chairman of the JFM and thus, when he succeeded with the coup, the JFM regarded the coup as its own victory. However, a militaristic leftist JFM became a threat to Rawlings's political life, and he removed the JFM by manipulating the moderate leftist NMD, the other pillar of the leftist group. Later, Rawlings encouraged competition between the right and left to dissolve the NMD and other leftist residuals; the outcome was that the negotiation with the IMF was completed. In the process of eliminating his potential political threats, the leftists' economic development plan suggesting "autonomous and self-reliant development based on mass mobilisation" was totally superseded. Rawlings and his "small boys" chose monetary aid at the price of abdicating autonomy in economic policies in 1983 (Hansen, 1987, p. 198). In the course of the fight against enemies within, the Rawlings regime abdicated the autonomy of making national economic plan to donors and accepted money and a new set of economic policies given by donors.

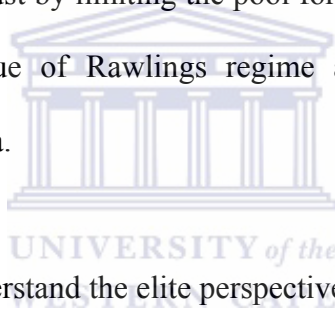
The loss of economic autonomy marked the beginning of the new path of aid dependence and the loss of 'people's autonomy'. Rawlings claimed that his military coup was a revolution and he set up the National Defence Committees (NDCs) as operating revolutionary units. The NDCs were encouraged to perform as decision-making units for grassroots and regarded as "the highest form of democracy" (Workers Banner, 1981). As Rawlings intended, soon there were almost no villages and working places in Ghana without NDCs, thanks to the encouraged "autonomy, self-direction, personal initiative and spontaneity" (Oquaye, 2004, p.152). However, the people's autonomy was soon abolished by its creator. There were various reasons for the premature demise of the NDCs and these included the uncontrolled and destructive activities of their

members and a power struggle between the heads of the NDCs and Rawlings. However the main reason, as the thesis pointed out, was the fight against the enemies within the regime and the uneasy attitude of the IMF toward the NDCs swayed the balance as well. Rawlings needed to secure a tighter grip on the population in order to implement the harsh IMF package which accompanied aid; the people's autonomy that he once encouraged became an obstacle to that.

The exchange of people's autonomy for foreign aid was later expanded to include giving up political autonomy in 1992. Ghana decided to receive more aid in exchange for altering its political system, but only after they amended the Constitution protecting the advantages of the existing ruling elite first. Moreover, putting aside the normative discourse on democracy, since democratisation in Ghana was not a response of the regime to the demand of grassroots but a choice of the elite in exchange for financial aid, the thesis argued that democratisation of Ghana was abdication of political autonomy. The imposed change of the political system toward "democracy" shifted the focus of the state elite towards politics and elections.¹³⁸ Ghana had been enjoying improved fiscal conditions since 1983, even though that did not mean Ghana was escaping aid dependence. However, even the fiscal progress stopped in 1992 when elections took place. Hutchful (2002, pp. 221-3) also notes that when elections took place in Ghana, politicians and their financial supporters made decisions on economic policy *in lieu of* technocrats and then, fiscal progress stops.

¹³⁸ Even though democratisation process was not a subject of the thesis, Park's regime did not open up Korea's political system. Korea went through to political transformation to democracy in 1987 and Burton and Ryu (1997, p. 194) explain that "consensual elite unity" was the most critical determinants of the democratisation in Korea which was facilitated by a number of contextual factors such as a growing economy, a substantial middle class, a highly educated mass, the spread of democratic values, the absence of ethnic cleavages, the presence of North Korea as a national threat and an international climate accepting only the democratic state as a legitimate state .

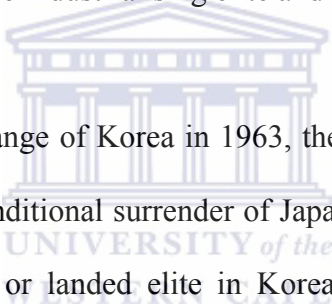
When observing the characteristics of the debt elite in the Rawlings regime who made those decisions, one outstanding feature is the chronic and exacerbated brain drain. It began in the Nkrumah era and was aggravated by subsequent political conflicts and settling of scores. The economic plight also played a role and there was no systemic effort to attract the highly qualified expatriates back to Ghana. The Rawlings regime also suffered the effects of the brain drain in trying to appoint competent people, and it took months to fill key positions in the Ministry of Finance and Economic Planning (Agyeman-Duah, 1987, p. 618). The expatriated professionals influenced the elite in Ghana not just by limiting the pool for the Ghanaian government, but also by becoming a source of critique of Rawlings regime abroad, which affected the threat perception of the elite inside Ghana.



The thesis made an attempt to understand the elite perspectives in the context of elite nationalism in Ghana. Nationalism was a creation of the new elite who emerged around independence. In order to gain political power in relation to the colonial elite and the traditional elite, the newly educated elite who were mostly from relatively wealthy families propagated nationalism in order to build the legitimacy of their political power. Even though, due to the chronic brain drain, the new elite or the off-spring of the new elite did not significantly influence the elite of the Rawlings regime, the debt elite in Rawlings regime seemed to have similar attitudes in interpreting nationalism in Ghana, which led to indebted mercantilism. The debt elite in Ghana politicised foreign economic policy to check political competitors and were highly motivated to obtain projects funded by donors. This brought about the rise of a “default program” which ministries actually pursued, not because it was necessary, but because it would come with foreign

aid (Whitfield & Jones, 2008, p. 4).

In conclusion, the thesis attempted to account for the marginalised subject of foreign economic policy of aid-recipient countries, using a framework of path dependent aid dependence, and introduced ‘industrial mercantilism’ as a framework to understand the ‘industrialising elite’ decisions in aid independent Korea and ‘indebted mercantilism’ to understand the ‘debt elite’ in aid dependent Ghana. By examining two disparate paths of aid dependence in Korea and Ghana, the thesis presents the following important findings regarding industrial mercantilism and indebted mercantilism, as well as the industrialising elite and the debt elite.



First, behind the foreign policy change of Korea in 1963, there was the change of a whole elite group. As mentioned above, unconditional surrender of Japan, the Korean War and land reform effectively destroyed the colonial or landed elite in Korea. When Park took power with a military elite and when they recruited a new set of elites, they were, as collectively a new elite who did not have vested interests in the previous or existing economic system, and there was a consensus among the elite regarding industrialisation as a national strategy for survival. In short, in Korea, the newly united elite emerged with the coup and the unity drove the foreign policy change. On the other hand, in Ghana’s case, there were conflicts, disharmony, distrust, and changes within the elite as far as the foreign policy change was concerned. Ghana’s foreign policy choice was a product of inner conflict that resulted in the Rawlings regime always being wary of enemies from within. Here, there was a military coup producing the new, but vulnerable elite, and conflicts within the new elite became the driving factor for foreign policy change. For instance, some parties opposed foreign policy change, notably the JFM and NDM,

but the change was completed in parallel with the demise of those parties. The elite's perception of industrial mercantilism had been unified among the elite in Korea. In contrast, the elite perception of indebted mercantilism was an outcome of the elite conflict in Ghana.

Secondly, regarding technocrats, even though both countries employed technocrats as decision-makers in foreign economic policy, while Korea had a sufficient pool of trained modern elites, Ghana lacked it. It was in part due to the different legacy of colonialism and previous regimes and in part due to brain drain or government's attempts (or lack of) to reverse it. In Korea, systematic government practices were carried out to repatriate professionals from abroad. However, in Ghana, the Rawlings regime aggravated already serious brain drain resulting in vacancies of critical posts in government. Repatriated professionals in Korea were patriotic and directly involved in decision-making in national affairs. They supplemented and taught the military elite. On the other hand, expatriated Ghanaians became critics against the Rawlings regime that defied Ghanaian nationalism by being unconditional and racist. In response, this helped shape the elite perspectives on threats against their survival.

Thirdly, the donor community was eager to make a success story of both Korea and Ghana. Korea was at the centre of competition in the Cold War. North Korea was a proxy that showed how good the USSR was at nurturing allied poor countries and South Korea was a proxy of the US. Japan also needed an economically strong Korea as a buffer between itself and China/North Korea in order not to have Communists within an hour's range of Japan. However, the donors to Ghana did not have such desperate reasons for establishing aid independence or sustained economic growth in Ghana. The donor community was eager to make a success story of Ghana

too, since Ghana was the first African country to accept a Structural Adjustment Programmes (SAP) in the early 1980s. However, the donor intention was less political and less desperate in Ghana (low politics as opposed to security politics). Ghana became a 'star pupil' of the SAPs with noteworthy progress in economic and political transformation. However, the excessive efforts to make a success story led to aid dependence in Ghana. The more money donors put into Ghana in fear of failure, the more aid dependent Ghana became.

Fourthly, the industrialising elite in Korea had an economic plan before they went to the aid negotiation table. There were development plans and an anticipated amount of funding to cover the plans was in the mind of negotiators when they embarked on aid negotiations. Negotiations duly were based on the plans and the necessary funding. In contrast, the Ghanaian elite negotiated first and then worked on planning national economic development afterwards, based on the result of negotiations. Indebted mercantilist aid diplomacy places 'more credit' at the top of the negotiation agenda. Thus, negotiation aimed towards 'getting-as-much-as-possible.' Ghana's ministries negotiated donor-initiated aid programmes "under the strategy of maximising aid inflows" (Whitfield & Jones, 2008, p. 4).

Finally, in Korea, industrial mercantilist elites used autonomy to achieve their goals, whereas indebted mercantilist elites in Ghana abdicated autonomy to achieve their goals. In Korea, industrial mercantilist elites, not only used, but fought for national autonomy to restructure national industry through active domestic policy, whereas indebted mercantilist elites in Ghana yielded the autonomy of formulating and implementing domestic policies to gain more financial resources. In other words, industrial elites rely on national autonomy within which they can

formulate and implement policies in order to establish what they plan and they pursue legitimacy in their establishments. On the other hand, debt elites rely aid (and hence, debt) for their survival and abdicate national autonomy if it is necessary to receive foreign capital.

6.2 Contribution and future research agenda

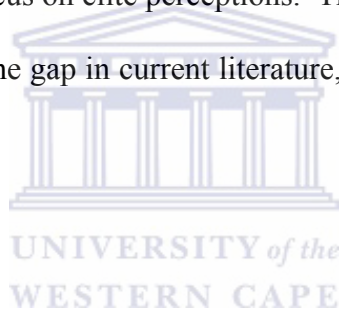
The findings of this study may prove to be useful for aid policies of donors and recipients. The recent efforts of the UN to promote industrialisation in Africa are one such a policy approach that could benefit from a deliberate investigation of how path dependence and the elite's role in that process can derail or promote industrialisation (Economic Commission for Africa, 2013, p. 9). However, those effective industrial policies or industrialisation cannot arise without industrialising elites. This thesis infers that in order to get more aid-receiving countries out of the trap of aid-dependence, scholars and policy-makers working in the area of overseas aid need to shift their attention; from a donor-centric view of who gives aid, how aid is given and for what purposes to a recipient-centric view of who the elite in aid recipient countries are and what they want to do with the aid and why.

Although the thesis aimed to fill a gap in donor-centred studies on aid by employing the lens of mercantilism in a novel way, the findings of the thesis can in future research be expanded to add more significantly to theory in this field. The thesis already contributed the concept 'indebted mercantilism' and 'industrial mercantilism', but both these concepts can be theorised more thoroughly innovative qualitative and quantitative studies that consider the longitudinal nature of

the path dependence approach across more cases.

6.3 Conclusion

In conclusion, the thesis set out to investigate the link between elite perspectives of the purpose of foreign aid and the consequent economic development paths in recipient countries. As was summarise above, it achieved this by looking at the cases of Korea and Ghana, employing a path dependence lens that included a focus on elite perceptions. The thesis provided concrete findings that not only contributes to close the gap in current literature, but that open up an exciting future research agenda in this area.



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