• Investing in a company that is going to make a loss for 17 years may be an excellent proposition.
• Some of the world’s best firms are owned and run by the state.
• ‘Borrowing’ ideas from more productive foreigners is essential for economic development.
• Low inflation and government prudence may be harmful for economic development.
• Corruption exists because there is too much, not too little, market.
• Free market and democracy are not natural partners.
• Countries are poor not because their people are lazy; their people are ‘lazy’ because they are poor.

Like this opening chapter, the closing chapter of the book opens with an alternative ‘future history’ – but this time a very bleak one. The scenario is deliberately pessimistic, but it is firmly rooted in reality, showing how close we are to such a future, should we continue with the neo-liberal policies propagated by the Bad Samaritans. In the rest of the chapter, I present some key principles, distilled from the detailed policy alternatives that I discuss throughout the book, which should guide our action if we are to enable developing countries to advance their economies. Despite its bleak scenario, the chapter – and therefore the book – closes with a note of optimism, explaining why I believe most Bad Samaritans can be changed and really made to help developing countries improve their economic situations.

Once upon a time, the leading car maker of a developing country exported its first passenger cars to the US. Up to that day, the little company had only made shoddy products – poor copies of quality items made by richer countries. The car was nothing too sophisticated – just a cheap subcompact (one could have called it ‘four wheels and an ashtray’). But it was a big moment for the country and its exporters felt proud.

Unfortunately, the product failed. Most thought the little car looked lousy and savvy buyers were reluctant to spend serious money on a family car that came from a place where only second-rate products were made. The car had to be withdrawn from the US market. This disaster led to a major debate among the country’s citizens.

Many argued that the company should have stuck to its original business of making simple textile machinery. After all, the country’s biggest export item was silk. If the company could not make good cars after 25 years of trying, there was no future for it. The government had given the car maker every opportunity to succeed. It had ensured high profits for it at home through high tariffs and draconian controls on foreign investment in the car industry. Fewer than ten years ago, it even gave public money to save the company from imminent bankruptcy. So, the critics argued, foreign cars should now be let in freely and foreign car makers, who had been kicked out 20 years before, allowed to set up shop again.

Others disagreed. They argued that no country had got anywhere without developing ‘serious’ industries like automobile production.
They just needed more time to make cars that appealed to everyone.

The year was 1958 and the country was, in fact, Japan. The company was Toyota, and the car was called the Toyopet. Toyota started out as a manufacturer of textile machinery (Toyoda Automatic Loom) and moved into car production in 1933. The Japanese government kicked out General Motors and Ford in 1939 and bailed out Toyota with money from the central bank (Bank of Japan) in 1949. Today, Japanese cars are considered as ‘natural’ as Scottish salmon or French wine, but fewer than 50 years ago, most people, including many Japanese, thought the Japanese car industry simply should not exist.

Half a century after the Toyopet debacle, Toyota’s luxury brand Lexus has become something of an icon for globalization, thanks to the American journalist Thomas Friedman’s book, The Lexus and the Olive Tree. The book owes its title to an epiphany that Friedman had on the Shinkansen bullet train during his trip to Japan in 1992. He had paid a visit to a Lexus factory, which mightily impressed him. On his train back from the car factory in Toyota City to Tokyo, he came across yet another newspaper article about the troubles in the Middle East where he had been a long-time correspondent. Then it hit him. He realized that that ‘half the world seemed to be . . . intent on building a better Lexus, dedicated to modernizing, streamlining, and privatizing their economies in order to thrive in the system of globalization. And half of the world – sometimes half the same country, sometimes half the same person – was still caught up in the fight over who owns which olive tree?’.4

According to Friedman, unless they fit themselves into a particular set of economic policies that he calls the Golden Straitjacket, countries in the olive-tree world will not be able to join the Lexus world. In describing the Golden Straitjacket, he pretty much sums up today’s neo-liberal economic orthodoxy: in order to fit into it, a country needs to privatize state-owned enterprises, maintain low inflation, reduce the size of government bureaucracy, balance the budget (if not running a surplus), liberalize trade, deregulate foreign investment, deregulate capital markets, make the currency convertible, reduce corruption and privatize pensions.4 According to him, this is the only path to success in the new global economy. His Straitjacket is the only gear suitable for the harsh but exhilarating game of globalization. Friedman is categorical: ‘Unfortunately, this Golden Straitjacket is pretty much “one-size fits all” . . . It is not always pretty or gentle or comfortable. But it’s here and it’s the only model on the rack this historical season.’5

However, the fact is that, had the Japanese government followed the free-trade economists back in the early 1960s, there would have been no Lexus. Toyota today would, at best, be a junior partner to some western car manufacturer, or worse, have been wiped out. The same would have been true for the entire Japanese economy. Had the country donned Friedman’s Golden Straitjacket early on, Japan would have remained the third-rate industrial power that it was in the 1960s, with its income level on a par with Chile, Argentina and South Africa – it was then a country whose prime minister was insultingly dismissed as ‘a transistor-radio salesman’ by the French president, Charles De Gaulle.5 In other words, had they followed Friedman’s advice, the Japanese would now not be exporting the Lexus but still be fighting over who owns which mulberry tree.

The official history of globalization

Our Toyota story suggests that there is something spectacularly jarring in the fable of globalization promoted by Thomas Friedman and his colleagues. In order to tell you what it is exactly, I need to tell you what I call the ‘official history of globalization’ and discuss its limitations.

According to this history, globalization has progressed over the last three centuries in the following way:6 Britain adopted free-market and free-trade policies in the 18th century, well ahead of other countries. By the middle of the 19th century, the superiority of these policies became so obvious, thanks to Britain’s spectacular economic success, that other countries started liberalizing their trade and deregulating their domestic economies. This liberal world order, perfected around 1870 under British hegemony, was based on: laissez-faire industrial policies at home; low barriers to the international flows of goods, capital
and labour; and macroeconomic stability, both nationally and internationally, guaranteed by the principles of sound money (low inflation) and balanced budgets. A period of unprecedented prosperity followed.

Unfortunately, things started to go wrong after the First World War. In response to the ensuing instability of the world economy, countries unwisely began to erect trade barriers again. In 1930, the US abandoned free trade and enacted the infamous Smoot-Hawley tariff. Countries like Germany and Japan abandoned liberal policies and erected high trade barriers and created cartels, which were intimately associated with their fascism and external aggression. The world free trade system finally ended in 1932, when Britain, hitherto the champion of free trade, succumbed to temptation and itself re-introduced tariffs. The resulting contraction and instability in the world economy, and then, finally, the Second World War, destroyed the last remnants of the first liberal world order.

After the Second World War, the world economy was re-organized on a more liberal line, this time under American hegemony. In particular, some significant progress was made in trade liberalization among the rich countries through the early GATT (General Agreement on Trade and Tariffs) talks. But protectionism and state intervention still persisted in most developing countries and, needless to say, in the communist countries.

Fortunately, illiberal policies have been largely abandoned across the world since the 1980s following the rise of neo-liberalism. By the late 1970s, the failures of so-called import substitution industrialization (ISI) in developing countries – based on protection, subsidies and regulation – had become too obvious to ignore. The economic 'miracle' in

* The idea behind import substitution industrialization is that a backward country starts producing industrial products that it used to import, thereby 'substituting' imported industrial products with domestically produced equivalents. This is achieved by making imports artificially expensive by means of tariffs and quotas against imports, or subsidies to domestic producers. The strategy was adopted by many Latin American countries in the 1930s. At the time, most other developing countries were not in a position to practise the ISI strategy, as they were either colonies or subject to 'unequal treaties' that deprived them of the right to set their own tariffs (see below). The ISI strategy was adopted by most other developing countries after they gained independence between the mid-1940s and the mid-1960s.

East Asia, which was already practising free trade and welcoming foreign investment, was a wake-up call for the other developing countries. After the 1982 Third World debt crisis, many developing countries abandoned interventionism and protectionism, and embraced neo-liberalism. The crowning glory of this trend towards global integration was the fall of communism in 1989.

These national policy changes were made all the more necessary by the unprecedented acceleration in the development of transport and communications technologies. With these developments, the possibilities of entering mutually beneficial economic arrangements with partners in faraway countries – through international trade and investment – increased dramatically. This has made openness an even more crucial determinant of a country's prosperity than before.

Reflecting the deepening global economic integration, the global governance system has recently been strengthened. Most importantly, in 1995 the GATT was upgraded to the WTO (World Trade Organisation), a powerful agency pushing for liberalization not just in trade but also in other areas, like foreign investment regulation and intellectual property rights. The WTO now forms the core of the global economic governance system, together with the IMF (International Monetary Fund) – in charge of access to short-term finance – and the World Bank – in charge of longer-term investments.

The result of all these developments, according to the official history, is a globalized world economy comparable in its liberality and potential for prosperity only to the earlier 'golden age' of liberalism (1870–1913). Renato Ruggiero, the first director-general of the WTO, solemnly declared that, as a consequence of this new world order, we now have 'the potential for eradicating global poverty in the early part of the next [21st] century – a Utopian notion even a few decades ago, but a real possibility today."

This version of the history of globalization is widely accepted. It is supposed to be the route map for policy makers in steering their countries towards prosperity. Unfortunately, it paints a fundamentally misleading picture, distorting our understanding of where we have come from, where we are now and where we may be heading for. Let's see how.
The real history of globalization

On 30 June 1997, Hong Kong was officially handed back to China by its last British governor, Christopher Patten. Many British commentators fretted about the fate of Hong Kong’s democracy under the Chinese Communist Party, although democratic elections in Hong Kong had only been permitted as late as 1994, 152 years after the start of British rule and only three years before the planned hand-over. But no one seems to remember how Hong Kong came to be a British possession in the first place.

Hong Kong became a British colony after the Treaty of Nanking in 1842, the result of the Opium War. This was a particularly shameful episode, even by the standards of 19th-century imperialism. The growing British taste for tea had created a huge trade deficit with China. In a desperate attempt to plug the gap, Britain started exporting opium produced in India to China. The mere detail that selling opium was illegal in China could not possibly be allowed to obstruct the noble cause of balancing the books. When a Chinese official seized an illicit cargo of opium in 1841, the British government used it as an excuse to fix the problem once and for all by declaring war. China was heavily defeated in the war and forced to sign the Treaty of Nanking, which made China ‘lease’ Hong Kong to Britain and give up its right to set its own tariffs.

So there it was – the self-proclaimed leader of the ‘liberal’ world declaring war on another country because the latter was getting in the way of its illegal trade in narcotics. The truth is that the free movement of goods, people, and money that developed under British hegemony between 1870 and 1913 — the first episode of globalization — was made possible, in large part, by military might, rather than market forces. Apart from Britain itself, the practitioners of free trade during this period were mostly weaker countries that had been forced into, rather than had voluntarily adopted, it as a result of colonial rule or ‘unequal treaties’ (like the Nanking Treaty), which, among other things, deprived them of the right to set tariffs and imposed externally determined low, flat-rate tariffs (3–5%) on them.8

Despite their key role in promoting ‘free’ trade in the late 19th and early 20th centuries, colonialism and unequal treaties hardly get any mention in the hordes of pro-globalisation books.9 Even when they are explicitly discussed, their role is seen as positive on the whole. For example, in his acclaimed book, Empire, the British historian Niall Ferguson honestly notes many of the misdeeds of the British empire, including the Opium War, but contends that the British empire was a good thing overall — it was arguably the cheapest way to guarantee free trade, which benefits everyone.10 However, the countries under colonial rule and unequal treaties did very poorly. Between 1870 and 1913, per capita income in Asia (excluding Japan) grew at 0.4% per year, while that in Africa grew at 0.6% per year.11 The corresponding figures were 1.3% for Western Europe and 1.8% per year for the USA.12 It is particularly interesting to note that the Latin American countries, which by that time had regained tariff autonomy and were boasting some of the highest tariffs in the world, grew as fast as the US did during this period.13

While they were imposing free trade on weaker nations through colonialism and unequal treaties, rich countries maintained rather high tariffs, especially industrial tariffs, for themselves, as we will see in greater detail in the next chapter. To begin with, Britain, the supposed home of free trade, was one of the most protectionist countries until it converted to free trade in the mid-19th century. There was a brief period during the 1860s and the 1870s when something approaching free trade did exist in Europe, especially with zero tariffs in Britain. However, this proved short-lived. From the 1880s, most European countries raised protective barriers again, partly to protect their farmers from cheap food imported from the New World and partly to promote their newly emerging heavy industries, such as steel, chemicals and machinery.14 Finally, even Britain, as I have noted, the chief architect of the first wave of globalization, abandoned free trade and re-introduced tariffs in 1932. The official history describes this event as Britain ‘succumbing to the temptation’ of protectionism. But it typically fails to mention that this was due to the decline in British economic supremacy, which in turn was the result of the success of protectionism on the part of competitor countries, especially the USA, in developing their own new industries.
Thus, the history of the first globalization in the late 19th and early 20th centuries has been rewritten today in order to fit the current neo-liberal orthodoxy. The history of protectionism in today's rich countries is vastly underplayed, while the imperialist origin of the high degree of global integration on the part of today's developing countries is hardly ever mentioned. The final curtain coming down on the episode - that is, Britain's abandonment of free trade - is also presented in a biased way. It is rarely mentioned that what really made Britain abandon free trade was precisely the successful use of protectionism by its competitors.

Neo-liberals vs neo-idiotics?

In the official history of globalization, the early post-Second-World-War period is portrayed as a period of incomplete globalization. While there was a significant increase in integration among the rich countries, accelerating their growth, it is said, most developing countries refused to fully participate in the global economy until the 1980s, thus holding themselves back from economic progress.

This story misrepresents the process of globalization among the rich countries during this period. These countries did significantly lower their tariff barriers between the 1950s and the 1970s. But during this period, they also used many other nationalistic policies to promote their own economic development - subsidies (especially for research and development, or R&D), state-owned enterprises, government direction of banking credits, capital controls and so on. When they started implementing neo-liberal programmes, their growth decelerated. In the 1960s and the 1970s, per capita income in the rich countries grew by 3.2% a year, but its growth rate fell substantially to 2.1% in the next two decades.\(^{15}\)

But more misleading is the portrayal of the experiences of developing countries. The postwar period is described by the official historians of globalization as an era of economic disasters in these countries. This was because, they argue, these countries believed in 'wrong' economic theories that made them think they could defy market logic. As a result, they suppressed activities which they were good at (agriculture, mineral extraction and labour-intensive manufacturing) and promoted 'white elephant' projects that made them feel proud but were economic nonsense - the most notorious example of this is Indonesia producing heavily subsidized jet aeroplanes.

The right to 'asymmetric protection' that the developing countries secured in 1964 at the GATT is portrayed as 'the proverbial rope on which to hang one's own economy!'; in a well-known article by Jeffrey Sachs and Andrew Warner.\(^{16}\) Gustavo Franco, a former president of the Brazilian central bank (1997–99), made the same point more succinctly, if more crudely, when he said his policy objective was 'to undo forty years of stupidity' and that the only choice was 'to be neo-liberal or neo-idiotic'.\(^{17}\)

The problem with this interpretation is that the 'bad old days' in the developing countries weren't so bad at all. During the 1960s and the 1970s, when they were pursuing the 'wrong' policies of protectionism and state intervention, per capita income in the developing countries grew by 3.0% annually.\(^{18}\) As my esteemed colleague Professor Ajit Singh once pointed out, this was the period of 'Industrial Revolution in the Third World'.\(^{19}\) This growth rate is a huge improvement over what they achieved under free trade during the 'age of imperialism' (see above) and compares favourably with the 1–1.5% achieved by the rich countries during the Industrial Revolution in the 19th century. It also remains the best that they have ever recorded. Since the 1980s, after they implemented neo-liberal policies, they grew at only about half the speed seen in the 1960s and the 1970s (1.7%). Growth slowed down in the rich countries too, but the slowdown was less marked (from 3.2% to 2.1%), not least because they did not introduce neo-liberal policies to the same extent as the developing countries did. The average growth rate of developing countries in this period would be even lower if we exclude China and India. These two countries, which accounted for 12% of total developing country income in 1980 and 30% in 2000, have so far refused to put on Thomas Friedman's Golden Straitjacket.\(^{20}\)

Growth failure has been particularly noticeable in Latin America and Africa, where neo-liberal programmes were implemented more
thoroughly than in Asia. In the 1960s and the 1970s, per capita income in Latin America was growing at 3.1% per year, slightly faster than the developing country average. Brazil, especially, was growing almost as fast as the East Asian ‘miracle’ economies. Since the 1980s, however, when the continent embraced neo-liberalism, Latin America has been growing at less than one-third of the rate of the ‘bad old days’. Even if we discount the 1980s as a decade of adjustment and take it out of the equation, per capita income in the region during the 1990s grew at basically half the rate of the ‘bad old days’ (3.1% vs 1.7%). Between 2000 and 2005, the region has done even worse; it virtually stood still, with per capita income growing at only 0.6% per year. As for Africa, its per capita income grew relatively slowly even in the 1960s and the 1970s (1–2% a year). But since the 1980s, the region has seen a fall in living standards. This record is a damning indictment of the neo-liberal orthodoxy, because most of the African economies have been practically run by the IMF and the World Bank over the past quarter of a century.

The poor growth record of neo-liberal globalization since the 1980s is particularly embarrassing. Accelerating growth – if necessary at the cost of increasing inequality and possibly some increase in poverty – was the proclaimed goal of neo-liberal reform. We have been repeatedly told that we first have to ‘create more wealth’ before we can distribute it more widely and that neo-liberalism was the way to do that. As a result of neo-liberal policies, income inequality has increased in most countries as predicted, but growth has actually slowed down significantly.

Moreover, economic instability has markedly increased during the period of neo-liberal dominance. The world, especially the developing world, has seen more frequent and larger-scale financial crises since the 1980s. In other words, neo-liberal globalization has failed to deliver on all fronts of economic life – growth, equality and stability. Despite this, we are constantly told how neo-liberal globalization has brought unprecedented benefits.

The distortion of facts in the official history of globalization is also evident at country level. Contrary to what the orthodoxy would have us believe, virtually all the successful developing countries since the

Second World War initially succeeded through nationalistic policies, using protection, subsidies and other forms of government intervention.

I have already discussed the case of my native Korea in some detail in the Prologue, but other ‘miracle’ economies of East Asia have also succeeded through a strategic approach to integration with the global economy. Taiwan used a strategy that is very similar to that of Korea, although it used state-owned enterprises more extensively while being somewhat friendlier to foreign investors than Korea was. Singapore has had free trade and relied heavily on foreign investment, but, even so, it does not conform in other respects to the neo-liberal ideal. Though it welcomed foreign investors, it used considerable subsidies in order to attract transnational corporations in industries it considered strategic, especially in the form of government investment in infrastructure and education targeted at particular industries. Moreover, it has one of the largest state-owned enterprise sectors in the world, including the Housing Development Board, which supplies 85% of all housing (almost all land is owned by the government).

Hong Kong is the exception that proves the rule. It became rich despite having free trade and a laissez-faire industrial policy. But it never was an independent state (not even a city state like Singapore) but a city within a bigger entity. Until 1997, it was a British colony used as a platform for Britain’s trading and financial interests in Asia. Today, it is the financial centre of the Chinese economy. These facts made it less necessary for Hong Kong to have an independent industrial base, although, even so, it was producing twice as much manufacturing output per capita as that of Korea until the mid-1980s, when it started its full absorption into China. But even Hong Kong was not a total free market economy. Most importantly, all land was owned by the government in order to control the housing situation.

The more recent economic success stories of China, and increasingly India, are also examples that show the importance of strategic, rather than unconditional, integration with the global economy based on a nationalistic vision. Like the US in the mid-19th century, or Japan and Korea in the mid-20th century, China used high tariffs to build up its industrial base. Right up to the 1990s, China’s average tariff was
over 30%. Admittedly, it has been more welcoming to foreign investment than Japan or Korea were. But it still imposed foreign ownership ceilings and local contents requirements (the requirements that the foreign firms buy at least a certain proportion of their inputs from local suppliers).

India’s recent economic success is often attributed to the pro-globalizers to its trade and financial liberalization in the early 1990s. As some recent research reveals, however, India’s growth acceleration really began in the 1980s, discrediting the simple ‘greater openness accelerates growth’ story. Moreover, even after the early 1990s trade liberalization, India’s average manufacturing tariffs remained at above 30% (it is still 25% today). India’s protectionism before the 1990s was certainly over-done in some sectors. But this is not to say that India would have been even more successful had it adopted free trade at independence in 1947. India has also imposed severe restrictions on foreign direct investment – entry restrictions, ownership restrictions and various performance requirements (e.g., local contents requirements).

The one country that seems to have succeeded in the postwar globalization period by using the neo-liberal strategy is Chile. Indeed, Chile adopted the strategy before anyone else, including the US and Britain, following the coup d’état by General Augusto Pinochet back in 1973. Since then, Chile has grown quite well – although nowhere nearly as fast as the East Asian ‘miracle’ economies. And the country has been constantly cited as a neo-liberal success story. Its good growth performance is undeniable. But even Chile’s story is more complex than the orthodoxy suggests.

Chile’s early experiment with neo-liberalism, led by the so-called Chicago Boys (a group of Chilean economists trained at the University of Chicago, one of the centres of neo-liberal economics), was a disaster. It ended in a terrible financial crash in 1982, which had to be resolved by the nationalization of the whole banking sector. Thanks to this crash, the country recovered the pre-Pinochet level of income only in the late 1980s. It was only when Chile’s neo-liberalism got more pragmatic after the crash that the country started doing well. For example, the government provided exporters with a lot of help in overseas marketing and R&D. It also used capital controls in the 1990s to successfully reduce the inflow of short-term speculative funds, although its recent free trade agreement with the US has forced it to promise never to use them again. More importantly, there is a lot of doubt about the sustainability of Chile’s development. Over the past three decades, the country has lost a lot of manufacturing industries and become excessively dependent on natural-resources-based exports. Not having the technological capabilities to move into higher-productivity activities, Chile faces a clear limit to the level of prosperity it can attain in the long run.

To sum up, the truth of post-1945 globalization is almost the polar opposite of the official history. During the period of controlled globalization underpinned by nationalist policies between the 1950s and the 1970s, the world economy, especially in the developing world, was growing faster, was more stable and had more equitable income distribution than in the past two and a half decades of rapid and uncontrolled neo-liberal globalization. Nevertheless, this period is portrayed in the official history as a one of unmitigated disaster of nationalist policies, especially in developing countries. This distortion of the historical record is peddled in order to mask the failure of neo-liberal policies.

Who’s running the world economy?

Much of what happens in the global economy is determined by the rich countries, without even trying. They account for 80% of world output, conduct 70% of international trade and make 70–90% (depending on the year) of all foreign direct investments. This means that their national policies can strongly influence the world economy. But more important than their sheer weight is the rich countries’ willingness to throw that very weight about in shaping the rules of the global economy. For example, developed countries induce poorer countries to adopt particular policies by making them a condition for their foreign aid or by offering them preferential trade agreements in return for ‘good behaviour’ (adoption of neo-liberal policies). Even more important in shaping options for developing countries, however, are the actions of multilateral organizations such as the ‘Unholy Trinity’
Bad Samaritans

argued that they have to intervene in new areas outside their original mandates, as they, too, affect economic performance, a failure in which has driven countries to borrow money from them. However, on this reasoning, there is no area of our life in which the BWIs cannot intervene. Everything that goes on in a country has implications for its economic performance. By this logic, the IMF and the World Bank should be able to impose conditionalities on everything from fertility decisions, ethnic integration and gender equality, to cultural values.

Don’t get me wrong. I am not one of those people who are against loan conditionalities on principle. It is reasonable for the lender to attach conditions. But conditions should be confined to only those aspects that are most relevant to the repayment of the loan. Otherwise, the lender may intrude in all aspects of the borrower's life.

Suppose I am a small businessman trying to borrow money from my bank in order to expand my factory. It would be natural for my bank manager to impose a unilateral condition on how I am going to repay. It might even be reasonable for him to impose conditions on what kind of construction materials I can use and what kind of machinery I can buy in expanding my factory. But, if he attaches the condition that I cut down on my fat intake on the (not totally irrelevant) grounds that a fatty diet reduces my ability to repay the loan by making me unhealthy, I would find this unreasonably intrusive. Of course, if I am really desperate, I may swallow my pride and agree even to this unreasonable condition. But when he makes it a further condition that I spend less than an hour a day at home (on the grounds that spending less time with the family will increase my time available for business and therefore reduce the chance of loan default), I would probably punch him in the face and storm out of the bank. It is not that my diet and family life have no bearings whatsoever on my ability to manage my business. As my bank manager reasons, they are relevant. But the point is that their relevance is indirect and marginal.

In the beginning, the IMF only imposed conditions closely related to the borrower country's management of its balance of payments, such as currency devaluation. But then it started putting conditions on government budgets on the grounds that budget deficits are a key

- namely the IMF, the World Bank and the WTO (World Trade Organisation). Though they are not merely puppets of the rich countries, the Unholy Trinity are largely controlled by the rich countries, so they devise and implement Bad Samaritan policies that those countries want.

The IMF and the World Bank were originally set up in 1944 at a conference between the Allied forces (essentially the US and Britain), which worked out the shape of postwar international economic governance. This conference was held in the New Hampshire resort of Bretton Woods, so these agencies are sometimes collectively called the Bretton Woods Institutions (BWIs). The IMF was set up to lend money to countries in balance of payments crises so that they can reduce their balance of payments deficits without having to resort to deflation. The World Bank was set up to help the reconstruction of war-torn countries in Europe and the economic development of the post-colonial societies that were about to emerge— which is why it is officially called the International Bank for Reconstruction and Development. This was supposed to be done by financing projects in infrastructure development (e.g., roads, bridges, dams).

Following the Third World debt crisis of 1982, the roles of both the IMF and the World Bank changed dramatically. They started to exert a much stronger policy influence on developing countries through their joint operation of so-called structural adjustment programmes (SAPs). These programmes covered a much wider range of policies than what the Bretton Woods Institutions had originally been mandated to do. The BWIs now got deeply involved in virtually all areas of economic policy in the developing world. They branched out into areas like government budgets, industrial regulation, agricultural pricing, labour market regulation, privatization and so on. In the 1990s, there was a further advance in this 'mission creep' as they started attaching so-called governance conditionalities to their loans. These involved intervention in hitherto unthinkable areas, like democracy, government decentralization, central bank independence and corporate governance.

This mission creep raises a serious issue. The World Bank and the IMF initially started with rather limited mandates. Subsequently, they
cause of balance of payments problems. This led to the imposition of conditions like the privatization of state-owned enterprises, because it was argued that the losses made by those enterprises were an important source of budget deficits in many developing countries. Once such an extension of logic began, there was no stopping. Since everything is related to everything else, anything could be a condition. In 1997, in Korea, for example, the IMF laid down conditions on the amount of debt that private sector companies could have, on the grounds that over-borrowing by these companies was the main reason for Korea’s financial crisis.

To add insult to injury, the Bad Samaritan rich nations often demand, as a condition for their financial contribution to IMF packages, that the borrowing country be made to adopt policies that have little to do with fixing its economy but that serve the interests of the rich countries lending the money. For example, on seeing Korea’s 1997 agreement with the IMF, one outraged observer commented: ‘Several features of the IMF plan are replays of the policies that Japan and the United States have long been trying to get Korea to adopt. These included accelerating the . . . reductions of trade barriers to specific Japanese products and opening capital markets so that foreign investors can have majority ownership of Korean firms, engage in hostile takeovers . . ., and expand direct participation in banking and other financial services. Although greater competition from manufactured imports and more foreign ownership could . . . help the Korean economy, Koreans and others saw this . . . as an abuse of IMF power to force Korea at a time of weakness to accept trade and investment policies it had previously rejected’. This was said not by some anti-capitalist anarchist but by Martin Feldstein, the conservative Harvard economist who was the key economic advisor to Ronald Reagan in the 1980s.

The IMF-World Bank mission creep, combined with the abuse of conditionalities by the Bad Samaritan nations, is particularly unacceptable when the policies of the Bretton Woods Institutions have produced slower growth, more unequal income distribution and greater economic instability in most developing countries, as I pointed out earlier in this chapter.

How on earth can the IMF and the World Bank persist for so long in pursuing the wrong policies that produce such poor outcomes? This is because their governance structure severely biases them towards the interests of the rich countries. Their decisions are made basically according to the share capital that a country has (in other words, they have a one-dollar-one-vote system). This means that the rich countries, which collectively control 60% of the voting shares, have an absolute control over their policies, while the US has a de facto veto in relation to decisions in the 18 most important areas. One result of this governance structure is that the World Bank and the IMF have imposed on developing countries standard policy packages that are considered to be universally valid by the rich countries, rather than policies that are carefully designed for each particular developing country – predictably producing poor results as a consequence. Another result is that, even when their policies may be appropriate, they have often failed because they are resisted by the locals as impositions from outside.

In response to mounting criticisms, the World Bank and the IMF have recently reacted in a number of ways. On the one hand, there have been some window-dressing moves. Thus the IMF now calls the Structural Adjustment Programme the Poverty Reduction and Growth Facility Programme, in order to show that it cares about poverty issues, though the contents of the programme have hardly changed from before. On the other hand, there have been some genuine efforts to open dialogues with a wider constituency, especially the World Bank’s engagement with NGOs (non-governmental organizations). But the impacts of such consultation are at best marginal. Moreover, when increasing numbers of NGOs in developing countries are indirectly funded by the World Bank, the value of such an exercise is becoming more doubtful.

The IMF and the World Bank have also tried to increase the ‘local ownership’ of their programmes by involving local people in their design. However, this has borne few fruits. Many developing countries lack the intellectual resources to argue against powerful international organizations with an army of highly trained economists and a lot of financial clout behind them. Moreover, the World Bank and the IMF have taken
what I call the 'Henry Ford approach to diversity' (he once said that a customer could have a car painted 'any colour... so long as it's black'). The range of local variation in policies that they find acceptable is very narrow. Also, with the increasing tendency for developing countries to elect or appoint ex-World Bank or ex-IMF officials to key economic posts, 'local' solutions are increasingly resembling the solutions provided by the Bretton Woods Institutions.

Completing the Unholy Trinity, the World Trade Organisation was launched in 1995, following the conclusion of the so-called Uruguay Round of the GATT talks. I will discuss the substance of what the WTO does in greater detail in later chapters, so here let me focus just on its governance structure.

The World Trade Organisation has been criticized on a number of grounds. Many believe that it is little more than a tool with which the developed countries pry open developing markets. Others argue that it has become a vehicle for furthering the interests of transnational corporations. There are elements of truth in both of these criticisms, as I will show in later chapters.

But, despite these criticisms, the World Trade Organisation is an international organization in whose running the developing countries have the greatest say. Unlike the IMF or the World Bank, it is 'democratic' - in the sense of allowing one country one vote (of course, we can debate whether giving China, with 1.3 billion people, and Luxembourg, with fewer than half a million people, one vote each is really 'democratic'). And, unlike in the UN, where the five permanent members of the Security Council have veto power, no country has a veto in the WTO. Since they have the numerical advantage, the developing countries count far more in the WTO than they do in the IMF or the World Bank.

Unfortunately, in practice, votes are never taken, and the organization is essentially run by an oligarchy comprising a small number of rich countries. It is reported that, in various ministerial meetings (Geneva 1998, Seattle 1999, Doha 2001, Cancun 2003), all the important negotiations were held in the so-called Green Rooms on a 'by-invitation-only' basis. Only the rich countries and some large developing countries that they cannot ignore (e.g., India and Brazil) were invited. Especially during the 1999 Seattle meeting, it was reported that some developing country delegates who tried to get into Green Rooms without invitations were physically thrown out.

But even without such extreme measures, the decisions are likely to be biased towards the rich countries. They can threaten and bribe developing countries by means of their foreign aid budgets or using their influence on the loan decisions by the IMF, the World Bank and 'regional' multilateral financial institutions.*

Moreover, there exists a vast gap in intellectual and negotiation resources between the two groups of countries. A former student of mine, who has just left the diplomatic service of his native country in Africa, once told me that his country had only three people, including himself, to attend all the meetings at the WTO in Geneva. The meetings often numbered more than a dozen a day, so he and his colleagues dropped a few meetings altogether and divided up the rest between the three of them. This meant that they could allocate only two to three hours to each meeting. Sometimes they went in at the right moment and made some useful contributions. Some other times, they were not so lucky and got completely lost. In contrast, the US - to take the example at the other extreme - had dozens of people working on intellectual property rights alone. But my former student said, his country was lucky - more than 20 developing countries do not have a single person based in Geneva, and many have to get by with only one or two people. Many more stories like this could be told, but they all suggest that international trade negotiations are a highly lopsided affair; it is like a war where some people fight with pistols while the others engage in aerial bombardment.

Are the Bad Samaritans winning?

Margaret Thatcher, the British prime minister who spearheaded the neoliberals counter-revolution, once famously dismissed her critics saying

* These include the Asian Development Bank (ADB), the Inter-American Development Bank (IDB), the African Development Bank (AFDB) and the European Bank for Reconstruction and Development (EBRD), which deals with the former communist economies.
that 'There is no alternative'. The spirit of this argument — known as TINA (There Is No Alternative) — permeates the way globalization is portrayed by the Bad Samaritans.

The Bad Samaritans like to present globalization as an inevitable result of relentless developments in the technologies of communication and transportation. They like to portray their critics as backward-looking 'modern-day Luddites' who 'fight over who owns which olive tree'. Going against this historical tide only produces disasters, it is argued, as evidenced by the collapse of the world economy during the inter-war period and by the failures of state-led industrialization in the developing countries in the 1960s and the 1970s. It is argued that there is only one way to survive the historic tidal force that is globalization, and that is to put on the one-size-fits-all Golden Straitjacket which virtually all the successful economies have allegedly worn on their way to prosperity.

In this chapter, I have shown that the TINA conclusion stems from a fundamentally defective understanding of the forces driving globalization and a distortion of history to fit the theory. Free trade was often imposed on, rather than chosen by, weaker countries. Most countries that had the choice did not choose free trade for more than brief periods. Virtually all successful economies, developed and developing, got where they are through selective, strategic integration with the world economy, rather than through unconditional global integration. The performance of the developing countries was much better when they had a large amount of policy autonomy during the 'bad old days' of state-led industrialization than when they were totally deprived of it during the first globalization (in the era of colonial rule and unequal treaties) or when they had much less policy autonomy (as in the past quarter of a century).

There is nothing inevitable about globalization, because it is driven more by politics (that is, human will and decision) than technology, as the Bad Samaritans claim. If it were technology that determined the extent of globalization, it would be impossible to explain how the world was much less globalized in the 1970s (when we had all the modern technologies of transport and communication except the internet) than in the 1870s (when we relied on steamships and wired telegraphy). Technology only defines the outer boundaries of globalization. Exactly what shape it takes depends on what we do with national policies and what international agreements we make. If that is the case, the TINA thesis is wrong. There is an alternative, or rather there are many alternatives, to the neo-liberal globalization that is happening today. The rest of this book is going to explore those alternatives.