cannot be reinvented at will – the failure to create the ‘new man’ under communism is a good proof of that. The cultural ‘reformer’ still has to work with existing cultural attitudes and symbols.

We need to understand the role of culture in economic development in its true complexity and importance. Culture is complex and difficult to define. It does affect economic development, but economic development affects it more than the other way around. Culture is not immutable. It can be changed through a mutually reinforcing interaction with economic development; ideological persuasion; and complementary policies and institutions that encourage certain forms of behaviour, which over time turn into cultural traits. Only then can we free our imaginations both from the unwarranted pessimism of those who believe culture is destiny and from the naïve optimism of those who believe they can persuade people to think differently and bring about economic development that way.

Luiz Soares is a worried man. His family engineering firm – Soares Tecnologia, S.A., which his grandfather, Jose Antonio, founded in 1997 – is on the brink of collapse.

The first years of Soares Tecnologia were difficult. The high interest rate policy, which lasted between 1994 and 2009, severely constrained its ability to borrow and expand. But, by 2013, it had grown into a solid middle-sized firm producing watch parts and other precision equipment, thanks to Jose Antonio’s skills and determination.

In 2015, Luiz’s father, Paulo, came back with a Ph.D. in nano-physics from Cambridge and persuaded Jose Antonio to set up a nano-technology division, which he headed. That proved a lucky escape. The Tallinn Round of the WTO concluded in 2017 abolished all industrial tariffs except for a handful of ‘reserved’ sectors for each country. As a result, most manufacturing industries, other than low-technology, low-wage ones, got wiped out in most developing countries, including Brazil. The Brazilian nano-technology industry survived the so-called Tallinn tsunami only because it was one of the ‘reserved’ industries.

Paulo’s foresight paid off. Soon after he took over the firm in 2023, after Jose Antonio’s yacht sank in a freak hurricane in the Caribbean (a result of global warming, they said), Soares Tecnologia launched a molecular machine which converted sea water into fresh water with greater efficiency than its American or Finnish rivals. It was a big hit in a country that was suffering from increasingly frequent droughts due to global warming – by that time, the Amazon forest was barely 40% of its 1970 size due to lack of rain (with a helping hand from...
pasture-hungry cattle ranchers). In 2018, Paulo was even selected as one of the world’s 500 leading technology entrepreneurs by the Shanghai-based Qiye (Enterprise), the world’s most influential business magazine.

Then disaster struck. In 2029, China was hit by a massive financial crisis. Back in 2021, commemorating the 100th anniversary of the foundation of its ruling Communist Party, China had decided to join the OECD (Organisation for Economic Co-operation and Development), the club of rich countries. Opening up its capital market was to be the price of its membership. China had already been resisting for some years the pressure from the rich countries to behave ‘responsibly’ as the world’s second biggest economy and to open up its financial market, but once it started negotiating the terms of OECD accession, there was no escape. Some urged caution, saying that China was still a relatively poor country, with an income level that was only 20% of that of the US, but most others were confident that China would do as well in finance as in manufacturing, where its ascendancy seemed unstoppable. Wang Xing-Guo, the pro-liberalization governor of the People’s Bank of China, the central bank (granted full independence in 2017), summed up this optimism perfectly: ‘What are we afraid of? The money game is in our genes – after all, paper money is a Chinese invention!’ When it joined the organization in 2024, China revalued its currency, the renminbi, by four times and fully opened its capital market. For a while, the Chinese economy boomed as though the sky was the limit. But the resulting real estate and stock market bubbles burst in 2029, requiring the largest IMF rescue package in history.

Soaring unemployment and IMF-imposed cuts to government food subsidies led to riots and eventually to the rise of the Yuan-Gongchandang (Real Communist) movement, fuelled by the seething resentment of the ‘losers’ in a society that had moved from the near-absolute equality of Maoist communism to Brazilian-style inequality in the space of less than two generations. The Real Communists have been contained, at least for the moment, following the arrest of all their leaders in 2035, but the resulting political turmoil and social unrest marked the end of the Chinese economic miracle.

The Chinese economy being so big by then, it brought the whole world down with it. What came to be known as the Second Great Depression has been going on for several years now and there seems to be no end in sight. With its largest export market collapsing, Brazil has suffered greatly, although not as heavily as some other countries.

The other leading Asian economies – such as India, Japan and Vietnam – went belly up. Many African countries could not survive the collapse of what, by then, was the biggest buyer of their raw materials. The US economy suffered withdrawal symptoms from the massive flight of Chinese capital from its Treasury bill market. The ensuing deep recession in the US economy triggered an even deeper one in Mexico, leading to an armed uprising by the Nuevos Zapatistas, the left-wing guerrillas claiming to be the legitimate heirs of the legendary early-20th century revolutionary Emiliano Zapata. The Nuevos Zapatistas swore to take Mexico out of the IAIA (Inter-American Integration Agreement) – the high-octane version of NAFTA that was formed by the US, Canada, Mexico, Guatemala, Chile and Colombia in 2020. The guerrillas were narrowly defeated after a brutal military operation, aided by the US air force and the Colombian army.

The Second Great Depression was bad enough for Soares Tecnologia, but then came the coup de grace. In 2033, driven by his free trade convictions and using the dire economic situation as a means to bully the opposition, the maverick Korean-Brazilian president, Alfredo Kim, a former chief economist of the World Bank, took the country into the IAIA.

For the Brazilian nano-technology industry, it was a catastrophe. As a part of the terms of entry into the IAIA, all federal R&D subsidies and government procurement programmes – lifelines for the industry – were phased out within three years. Tariffs in nano-technology and a few other ‘reserved’ sectors that had survived the Tallinn Round were immediately scrapped vis-à-vis the IAIA member countries. With the overall level of technology still 20, perhaps even 30, years behind US firms, most Brazilian nano-technology companies collapsed. Even Soares Tecnologia, considered to be Brazil’s best, survived only by selling a 45% stake to a firm from – of all countries! – Ecuador. Ecuador had done surprisingly well after forming the Bolivarian Economic Union with
Venezuela, Bolivia, Cuba, Nicaragua and Argentina in 2010 – the BEU members left the WTO in 2012 in protest at the Tallinn Round agenda. But even survivors like Soares Tecnologia were devastated by the new patent law that had now come into force. The US had already extended its patent life from 28 years (instituted in 1980) to 40 years in 2030. By contrast, Brazil was one of the few countries still clinging on to the 20-year patent life allowed under the increasingly obsolete WTO TRIPS agreement of 1995 (most others having moved to 28 years or even 40 years, in the case of the IAIA countries). When Brazil joined the IAIA, the main concession it had to make – in return for the abolition of beef and cotton subsidies in the US (to be phased in over the next 25 years) – was the patent law, which the Americans insisted should be applied retrospectively. At one stroke, the Brazilian nano-technology firms became liable to patent suits, and American nano-technology corporations parachuted in their army of patent lawyers.

With no tariffs against American imports, disappearing subsidies and shrivelling government procurement programmes, compounded by a flood of lawsuits, Soares Tecnologia was in a dire state when Paulo – may his soul rest in peace – had a massive stroke and died in 2035. As a result, Luiz was forced to quit his MBA course at the Singapore campus of INSEAD, the French business school (which, by that time, was considered to be better than the original campus in Fontainebleau), break up with Miriam, his half-Xhosa/half-Uzbek girlfriend (a distant cousin of Nelson Mandela on her Xhosa side), and return to Brazil to take over the family firm at the age of 27.

Things have not improved much since Luiz took over. True, he has successfully fought off several patent suits. But if he loses even one of the three that are still pending (none of them is looking hopeful), he will face ruin. His Ecuadorian partner, Nanotecnologia Andina, is already threatening to sell off its share in the company. When his firm disappears with the rest of the Brazilian nano-technology industry, most of Brazil’s manufacturing industries – except for aerospace and alcohol fuel, in which Brazil had established a world class position in the late 20th century before the rise of neo-liberalism – will have disappeared. Brazil will be back to square one.

Unlikely? Yes – and I hope it stays that way. Brazil is far too smart and independent-minded to sign something like my IAIA, even if it had a former World Bank chief economist as its president. Mexico has enough wise people and vibrant popular movements to be able to mend its ways before it is thrown into a full-scale civil war. The Chinese leadership is fully aware of the threats posed by the country’s widening inequality. They also know the dangers of any premature opening of its capital market, thanks to the 1997 Asian crisis. Even the mighty US patent lobby would find it difficult to secure a retrospective application of 40-year patents in any international agreement. There is a growing consensus that something has to be done about global warming soon. The next round of the WTO talks is not likely to lead to a near-total abolition of industrial tariffs.

But what I have just sketched out is not an impossible scenario. Many of the things I have made up have been deliberately exaggerated, but they all have a strong basis in reality.

For example, the near-total abolition of industrial tariffs following my imaginary Tallinn Round may sound fanciful, but it is actually a little milder than what was proposed by the US at the WTO in 2002 – it called for a total abolition of industrial tariffs by 2015 – and is not far off from what other rich countries are proposing. My Inter-American Integration Agreement is really a (geographically) broader and stronger (content-wise) version of NAFTA (North American Free Trade Agreement). The countries mentioned as possible members of the Bolivarian Economic Union are already working together closely (I have deliberately omitted Brazil, a member of this group, in my story). Of these, Venezuela, Cuba and Bolivia have already formed ALBA (Alternativa Bolivariana para las Américas: Bolivarian Alternatives for the Americas).

Given the growing importance of the Chinese economy, it is not totally fanciful that a major economic crisis in China in the late 2020s could turn into a Second Great Depression, especially if there was political turmoil in the country. The chances of upheaval in such circumstances would be strongly influenced by the gravity of its inequality problem which, while not yet at the Brazilian level, as in my story, could reach that in another generation, if no counteraction
is taken. As for a civil war in Mexico, this may sound like a fantasy, but, in today's Mexico, we already have one state, Chiapas, which has been, in effect, ruled by an armed guerrilla group, the Zapatistas under Subcomandante Marcos, since 1994. It would not be impossible for the conflict to escalate if the country were thrown into a major economic crisis, especially if it had continued for another two decades with the neo-liberal policies that have so ill-served it in the past two decades.

My US patent scenario is certainly exaggerated, but US pharmaceutical patents can already be de facto extended up to 28 years through data protection and in consideration of the time needed for FDA (Food and Drugs Administration) approval. The US has made sure that these provisions are written into all its free trade agreements. And, as I discussed in the story of Mickey Mouse in chapter 6, in 1998, US copyright was retrospectively extended.

The reader may find it particularly implausible that China would prematurely open its capital market. But when your economy becomes the second biggest in the world, it is hard to resist the pressure to act 'responsibly'. This is exactly what happened to Japan when it was made to revalue its currency by three times almost overnight in the 1985 Plaza Accord. That currency revaluation was an important cause of Japan's huge asset bubble, whose bursting in the early 1990s (and the incompetent management of its aftermath) resulted in economic stagnation for a decade. As for my saying that China would join the OECD to celebrate the 100th birthday of its Communist Party, that was certainly said tongue-in-cheek. But countries can become over-confident when they are very successful, as the case of Korea shows. Until the late 1980s, Korea had skillfully used capital controls to great economic benefit. But, in the mid-1990s, it opened its capital market wide, and without careful planning. This was partly due to American pressure, but also because, after three decades of its economic 'miracle', the country had become too full of itself. It decided to join the OECD in 1996 and act like a rich country when it really wasn't one. At the time, its per capita income was still only one-third that of most OECD member countries and one quarter that of the richest ones (or slightly above the level China is likely to reach by the mid-2020s). The outcome was the 1997 financial crisis. So my imaginary China story is really a combination of what actually happened in Japan in the 1980s and Korea in the 1990s.

Is it really plausible that Brazil would sign up to something like the IAIA? Absolutely not in today's world, but I am talking about a world in the middle of the Second Great Depression and an economy ravaged by another quarter of a century of neo-liberalism. Also, we should not underestimate how political leaders driven by ideological convictions can do things which are so 'out of character' with their countries' history, if they are there in the right place at the right time. For example, despite the famous British tradition of gradualism and pragmatism, Margaret Thatcher was radical and ideologically driven. Her government changed the character of British politics for the foreseeable future. Likewise, Brazil may have a history of independent-minded and pragmatic foreign policy, but that is not an absolute guarantee against someone like my Alfredo Kim driving it into the IAIA, especially when Brazil does not lack its own supply of free-market ideologues.

So, my 'alternative history of the future' is not a total fantasy. It is grounded in reality a lot more strongly than may appear at first. If I have been deliberately pessimistic in painting this scenario, it is to remind the reader how big the stakes are. I really hope that, 30 years from now, I will be proved completely wrong. But if the world continues with neo-liberal policies currently propagated by the Bad Samaritans, many of the events that I 'document' in the story, or something very like them, could happen.

Throughout this book, I have made many detailed proposals as to how policies, both nationally and globally, need to be changed in all sorts of areas in order to help poor countries develop and to avert the kind of disaster scenario that I have just described in my 'history of the future'. In this concluding chapter, I will not repeat or summarize these suggestions, but rather discuss the key principles that lie behind them. In the process, I hope to show how national economic policies and the rules of international economic interactions need to be changed if we are to promote economic development in poor countries and make the world a better place.
Defying the market

As I have constantly stressed, markets have a strong tendency to reinforce the status quo. The free market dictates that countries stick to what they are already good at. Stated bluntly, this means that poor countries are supposed to continue with their current engagement in low-productivity activities. But their engagement in those activities is exactly what makes them poor. If they want to leave poverty behind, they have to defy the market and do the more difficult things that bring them higher incomes – there are no two ways about it.

‘Defying the market’ may sound radical – after all, have many countries not failed miserably because they have tried to go against the market? But it is something that is done by business managers all the time. Business managers, of course, get judged ultimately by the market, but they – especially the successful ones – do not accept market forces blindly. They have their long-term plans for their companies, and these sometimes demand that they buck market trends for considerable periods of time. They foster the growth of their subsidiaries in the new sectors they choose to move into and make up for the losses with profits from their subsidiaries in the existing sectors. Nokia subsidized its fledgling electronics business for 17 years with money from its businesses in logging, rubber boots and electric cable. Samsung subsidized its infant electronics subsidiaries for over a decade with money made in textiles and sugar refining. If they had faithfully followed market signals in the way developing countries are told to by the Bad Samaritans, Nokia would still be felling trees and Samsung refining imported sugar cane. Likewise, countries should defy the market and enter difficult and more advanced industries if they want to escape poverty.

The trouble is that there are good reasons why low-earning countries (or, for that matter, low-earning firms or individuals) are engaged in less productive activities – they lack the capabilities to do more productive ones. A backyard motor repair shop in Maputo simply cannot produce a Beetle, even if Volkswagen were to give it all the necessary drawings and instruction manuals, because it lacks the technological and organizational capacities that Volkswagen enjoys. This is why, free market economists would argue, Mozambicans should be realistic and not mess around with things like cars (let alone hydrogen fuel cells!); instead they should just concentrate on what they are already (at least ‘comparatively’) good at – growing cashew nuts.

The free market recommendation is correct – in the short run, when capabilities cannot be changed very much. But this does not mean that Mozambicans should not produce something like a Beetle – one day. In fact, they need to – if they are going to make progress. And they can – given enough determination and the right investment, both at the firm level and at the national level, in accumulating the necessary abilities. After all, a backyard auto repair shop is exactly how the famous Korean car maker, Hyundai, started in the 1940s.

Needless to say, investment in capability-building requires short-term sacrifices. But that is not a reason not to do it, contrary to what free-trade economists say. In fact, we often see individuals making short-term sacrifices for a long-term increase in their capacities, and heartily approve of them. Suppose a low-skilled worker quits his low-paying job and attends a training course to acquire new skills. If someone were to say the worker is making a big mistake because he is now not able to earn even the low wage he used to earn, most of us would criticize that person for being short-sighted; an increase in a person’s future earning power justifies such short-term sacrifice. Likewise, countries need to make short-term sacrifices if they are to build up their long-term productive capabilities. If tariff barriers or subsidies allow domestic firms to accumulate new abilities – by buying better machinery, improving their organization and training their workers – and become internationally competitive in the process, the temporary reduction in the country’s level of consumption (because it is refusing to buy higher-quality, lower-price foreign goods) may be totally justified.

This simple but powerful principle – sacrificing the present to improve the future – is why the Americans refused to practise free trade in the 19th century. It is why Finland did not want foreign investment until recently. It is why the Korean government set up steel mills in the late 1960s, despite the objections of the World Bank. It is why the Swiss did not issue patents and the Americans did not protect
foreigners' copyrights until the late 19th century. And it is, to cap it all, why I send my six-year-old son, Jin-Gyu, to school rather than making him work and earn his living.

Investment in capacity-building can take quite a long time to bear fruit. I may not go as far as Zhou Enlai, the long-time prime minister of China under Mao Zedong - when asked to comment on the impact of the French Revolution, he replied that 'it is too early to tell.' But when I say long, I mean long. I have just mentioned that it took the electronics division of Nokia 17 years to make any profit, but that is just the beginning. It took Toyota more than 30 years of protection and subsidies to become competitive in the international car market, even at the lower end of it. It was a good 60 years before it became one of the world's top car makers. It took nearly 100 years from the days of Henry VII for Britain to catch up with the Low Countries in woollen manufacturing. It took the US 130 years to develop its economy enough to feel confident about doing away with tariffs. Without such long time horizons, Japan might still be mainly exporting silk, Britain wool and the US cotton.

Unfortunately, these are time frames that are not compatible with the neo-liberal policies recommended by the Bad Samaritans. Free trade demands that poor countries compete immediately with more advanced foreign producers, leading to the demise of firms before they can acquire new capabilities. A liberal foreign investment policy, which allows superior foreign firms into a developing country, will, in the long run, restrict the range of capabilities accumulated in local firms, whether independent or owned by foreign companies. Free capital markets, with their pro-cyclical herd behaviour, make long-term projects vulnerable. A high interest rate policy raises the 'price of future', so to speak, making long-term investment unviable. No wonder neo-liberalism makes economic development difficult - it makes the acquisition of new productive capabilities difficult.

Like any other investment, of course, investment in capability-building does not guarantee success. Some countries (as well as firms or individuals) make it; some don't. Some countries will be more successful than others. And even the most successful countries will bungle things in certain areas (but then, when we talk about 'success',

we are talking about batting averages, rather than infallibility). But economic development without investment in enhancing productive capabilities is a near impossibility. History - recent and more distant - tells us that, as I have shown throughout this book.

Why manufacturing matters

Having accepted that increasing capabilities is important, where exactly should a country invest in order to increase them? Industry - or, more precisely, manufacturing industry* - is my answer. It is also the answer that would have been given by generations of successful engineers of economic development from Robert Walpole onwards, had they been asked the same question.

Of course, this is not to say that it is impossible to become rich by relying on natural resources: Argentina was rich in the early 20th century through the trans-Atlantic export of wheat and beef (it was once the fifth richest country in the world); today, a number of countries are rich mainly due to oil. But one has to have a huge stock of natural resources in order to be able to base high living standards solely on them. Few countries are so fortunate. Moreover, natural resources can run out - mineral deposits are finite, while over-exploitation of renewable resources whose supplies are, in principle, infinite (e.g., fish, forests) can make them disappear. Worse, wealth based on natural resources can be rapidly eroded, if technologically more advanced nations come up with synthetic alternatives - in the mid-19th century, Guatemala's wealth, based on the highly prized crimson dye extracted from the insect, cochineal (cochinilla), was almost instantly wiped out when the Europeans invented artificial dye.

History has repeatedly shown that the single most important thing that distinguishes rich countries from poor ones is basically their higher capabilities in manufacturing, where productivity is generally higher and, more importantly, where productivity tends to (although does not always) grow faster than in agriculture or services. Walpole knew

* In some definitions, industry includes activities like mining or the generation and distribution of electricity or gas.
they had brotherly love – they had five hundred years of democracy and peace, and what did that produce? The cuckoo clock. This view of the Swiss economy, however, is a total misconception.

Switzerland is not a country living off black money deposited in its secretive banks and gullible tourists buying tacky souvenirs like cow bells and cuckoo clocks. It is, in fact, literally the most industrialized country in the world. As of 2002, it had the highest per capita manufacturing output in the world by far – 24% more than that of Japan, the second highest; 2.2 times that of the US; 34 times that of China, today’s ‘workshop of the world’; and 156 times that of India. Similarly, Singapore, commonly considered to be a city state that has succeeded as a financial centre and trading port, is a highly industrialized country, producing 35% more manufacturing output per head of population than the industrial powerhouse Korea and 18% more than the US.

Despite what the free trade economists recommend (concentrating on agriculture) or the prophets of post-industrial economy tout (developing services), manufacturing is the most important, though not the only, route to prosperity. There are good theoretical reasons for this, and an abundance of historical examples to prove the point. We must not look at spectacular contemporary examples of manufacturing-based success, like Switzerland and Singapore, and mistakenly think that they prove the opposite. It may be that the Swiss and the Singaporeans are playing us along because they don’t want other people to find out the real secret of their success!

Don’t try this at home

So far, I have shown that it is important for developing countries to defy the market and deliberately promote economic activities that will raise their productivity in the long run – mainly, though not exclusively, manufacturing industries. I have argued that this involves capability-building, which, in turn, requires sacrificing certain short-term gains for the sake of raising long-term productivity (and thus standards of living) – possibly for decades.
But neo-liberal economists may respond by asking: what about the low capacities of developing country governments that are supposed to orchestrate all this? If these countries are to defy the logic of the market, someone has to choose which industries to promote and what capabilities to invest in. But capable government officials are the last thing that developing countries have. If those making these important choices are incompetent, their intervention can only make things worse.

This was the argument used by the World Bank in its famous East Asian Miracle report, published in 1993. Advising other developing countries against emulating interventionist Japanese and Korean trade and industrial policies, it argued that such policies cannot work in countries without ‘the competence, insulation, and relative lack of corruptibility of the public administrations in Japan and Korea’—that is, practically all developing countries. Alan Winters, a professor of economics at the University of Sussex and the director of the Development Research Group at the World Bank, was even more blunt. He argued that ‘the application of second-best economics [economics that allows for imperfect markets and therefore potentially beneficial government intervention — my note] needs first-best economists, not its usual complement of third- and fourth-raters’. The message is clear — ‘Do not try this at home’, as TV captions say when showing people doing dangerous stunts.

There can be no dispute that, in many developing countries, government officials are not highly trained. But it is also not true that countries like Japan, Korea and Taiwan succeeded with interventionist policies because their bureaucracies were manned by exceptionally well-trained government officials. They were not — at least in the beginning.

Korea used to send its bureaucrats for extra training to — of all places — Pakistan and the Philippines until the late 1960s. Pakistan was then a ‘star pupil’ of the World Bank, while the Philippines was the second-richest country in Asia after Japan. Years ago, as a graduate student, I had a chance to compare the early economic planning documents of Korea and India. The early Indian plans were cutting-edge stuff for their time. They were based on a sophisticated economic model developed by the world-famous statistician Prasanta Chandra Mahalanobis. The Korean ones, I am embarrassed to say, were definitely written by Professor Winters’s ‘usual complement of third- and fourth-raters’. But the Korean economy did far better than the Indian one. Perhaps we don’t need ‘first-best economists’ to run good economic policy.

Indeed, Professor Winters’s first-best economists are one thing that the East Asian economies did not have. Japanese economic officials may have been ‘first-best’, but they were certainly not economists — they were mostly lawyers by training. Until the 1980s, what little economics they knew were mostly of the ‘wrong’ kind — the economics of Karl Marx and Friedrich List, rather than of Adam Smith and Milton Friedman. In Taiwan, most key economic bureaucrats were engineers and scientists, rather than economists, as is the case in China today. Korea also had a high proportion of lawyers in its economic bureaucracy until the 1970s. The brains behind President Park’s Heavy and Chemical Industrialisation (HCI) programme in the 1970s, Oh Won-Chul, was an engineer by training.

It is entirely reasonable to say that we need smart people to run good economic policy. But those ‘smart people’ do not have to be Professor Winters’s ‘first-best economists’. Actually, the ‘first-best economists’ may not be very good for economic development, if they are trained in neo-liberal economics. Moreover, the quality of the bureaucracy can be improved as we go along. Such improvement, of course, requires investment in bureaucratic capabilities. But it also needs some experiments with ‘difficult’ policies. If the bureaucrats stick to (allegedly) ‘easy’ policies, like free trade, they will never develop the abilities to run ‘difficult’ policies. You need some ‘trying at home’, if you aspire to become good enough to appear on TV with your own stunt act.

Tilting the playing field

Knowing what policies are right for your particular circumstances is not enough. A country must be able to implement them. Over the past quarter of a century, the Bad Samaritans have made it increasingly
difficult for developing countries to pursue the ‘right’ policies for their development. They have used the Unholy Trinity of the IMF, the World Bank and the WTO, the regional multilateral financial institutions, their aid budgets and bilateral and regional free-trade or investment agreements in order to block them from doing so. They argue that nationalist policies (like trade protection and discrimination against foreign investors) should be banned, or severely curtailed, not only because they are supposed to be bad for the practising countries themselves but also because they lead to ‘unfair’ competition. In arguing this, the Bad Samaritans constantly invoke the notion of the ‘level playing field’.

The Bad Samaritans demand that developing countries should not be allowed to use extra policy tools for protection, subsidies and regulation, as these constitute unfair competition. If they were allowed to do so, developing countries would be like a football team, the Bad Samaritans argue, attacking from uphill, while the other team (the rich countries) are struggling to climb the un-level playing field. Get rid of all protective barriers and make everyone compete on an equal footing; after all, the benefits of the market can only be reaped when the underlying competition is fair. 9 Who can disagree with such a reasonable-sounding notion as ‘the level playing field’?

I do — when it comes to competition between unequal players. And we all should — if we are to build an international system that promotes economic development. A level playing field leads to unfair competition when the players are unequal. When one team in a football game is, say, the Brazilian national team and the other team is made up of my 11-year-old daughter Yuna’s friends, it is only fair that the girls are allowed to attack downhill. In this case, a tilted, rather than a level, playing field is the way to ensure fair competition.

We don’t see this kind of tilted playing field only because the Brazilian national team is never going to be allowed to compete with a team of 11-year-old girls, and not because the idea of a tilted playing field is wrong in itself. In fact, in most sports, unequal players are not simply allowed to compete against each other — tilted playing field or not — for the obvious reason that it would be unfair.

* Quite a few developing countries have chosen not to use these tools. Some neoliberal economists have used this as ‘evidence’ that these countries do not want policy freedom — which means that the WTO rules are not, in fact, restricting the options for these countries. However, what may look like a voluntary choice is likely to have been shaped by past conditionalities attached to foreign aid and IMF-World Bank programmes, as well as the fear of future punishment by the rich countries. But, even ignoring this problem, it is not right for rich countries to make the choice for developing countries. It is actually quite curious how free-market economists who are so much in favour of choice and autonomy do not hesitate to oppose it when it is by developing countries.
treatment' for developing countries. But to call something special treatment is to say that the person receiving it is also obtaining an unfair advantage. Yet we wouldn't call stair-lifts for wheelchair users or Braille text for the blind 'special treatment'. In the same way, we should not call the higher tariffs and other means of protection additionally made available for the developing countries 'special treatment'. They are just differential – and fair – treatment for countries with differential capabilities and needs.

Last but not least, tilting the playing field in favour of developing nations is not just a matter of fair treatment now. It is also about providing the economically less advanced countries with the tools to acquire new capabilities by sacrificing short-term gains. Indeed, allowing the poor countries to raise their capabilities more easily brings forward the day when the gap between the players is small and thus it becomes no longer necessary to tilt the playing field.

What is right and what is easy

Suppose I am right and that the playing field should be tilted in favour of the developing countries. The reader can still ask: what is the chance of the Bad Samaritans accepting my proposal and changing their ways?

It may seem pointless to try to convert those Bad Samaritans who are acting out of self-interest. But we can still appeal to their enlightened self-interest. Since neo-liberal policies are making developing countries grow more slowly than they would otherwise do, the Bad Samaritans themselves might be better off in the long run if they allowed alternative policies that would let developing countries grow faster. If per capita income grows at only 1% a year, as it has in Latin America over the past two decades of neo-liberalism, it will take seven decades to double the income. But if it grows at 3%, as it did in Latin America during the period of import substitution industrialization, income would increase by eight times during the same period of time, providing the Bad Samaritan rich countries with a vastly bigger market to exploit. So it is actually in the long-term interest of even the most selfish Bad Samaritan countries to accept those 'heretical' policies that would generate faster growth in developing countries.

The people who are much harder to persuade are the ideologues – those who believe in Bad Samaritan policies because they think those policies are 'right', not because they personally benefit from them much, if at all. As I said earlier, self-righteousness is often more stubborn than self-interest. But even here there is hope. Once accused of inconsistency, John Maynard Keynes famously responded: 'When the facts change, I change my mind – what do you do, sir?' Many, although, unfortunately, not all, of these ideologues are like Keynes. They can change, and have changed, their minds, if they are confronted with new turns in real world events and new arguments, provided that these are compelling enough to make them overcome their previous convictions. The Harvard economist Martin Feldstein is a good example. He was once the brains behind Reagan's neo-liberal policies, but when the Asian crisis happened, his criticism of the IMF (cited in chapter 1) was more trenchant than those by some 'left-wing' commentators.

What should give us real hope is that the majority of Bad Samaritans are neither greedy nor bigoted. Most of us, including myself, do bad things not because we derive great material benefit from them or strongly believe in them, but because they are the easiest thing to do. Many Bad Samaritans go along with wrong policies for the simple reason that it's easier to be a conformist. Why go around looking for 'inconvenient truths' when you can just accept what most politicians and newspapers say? Why bother to find out what is really going on in poor countries when you can easily blame it on corruption, laziness or the profligacy of their people? Why go out of your way to check up on your own country's history when the 'official' version suggests that it has always been the home of all virtues? – free trade, creativity, democracy, prudence, you name it.

It is exactly because most Bad Samaritans are like this that I have hope. They are people who may be willing to change their ways, if they are given a more balanced picture, which I hope this book has provided. This is not just wishful thinking. There was a period, between the Marshall Plan (announced sixty years ago, in June 1947) and the
rise of neo-liberalism in the 1970s, when the rich countries, led by the US, did *not* behave as Bad Samaritans, as I discussed in chapter 2."

The fact that rich countries did not behave as Bad Samaritans on at least one occasion in the past gives us hope. The fact that that historical episode produced an excellent outcome economically – for the developing world has never done better, either before or since – gives us the moral duty to learn from that experience.

**Notes**

*Prologue*

1 The Korean income figure is from H.-C. Lee (1999), *Hankook Gyongje Tongsa* (Economic History of Korea) (Bup-Moon Sa, Seoul) [in Korean], Appendix Table 1. The Ghananian figure is from C. Kindleberger (1965), *Economic Development* (McGraw-Hill, New York), Table 1–1.

2 http://www.samsung.com/AboutSAMSUNG/SAMSUNGGroup/TimelineHistory/timeline01.htm

3 Calculated from A. Maddison (2003), *The World Economy: Historical Statistics* (OECD, Paris), Table 1c (UK), Table 2c (USA), and Table 5c (Korea).

4 Korea’s *per capita* income in 1972 was $319 (in current dollars). It was $1,647 in 1979. Its exports totaled $1.6 billion in 1972 and grew to $15.1 billion in 1979. The statistics are from Lee (1999), Appendix Table 1 (income) and Appendix Table 7 (exports).

5 In 2004, Korea’s *per capita* income was $13,980. In the same year, *per capita* income was $14,350 in Portugal and $14,810 in Slovenia. The figures are from World Bank (2006), *World Development Report 2006 – Equity and Development* (Oxford University Press, New York), Table 1.

6 Life expectancy at birth in Korea in 1960 was 53 years. In 2003, it was 77 years. In the same year, life expectancy was 51.6 years in Haiti and 80.5 years in Switzerland. Infant mortality in Korea was 78 per 1,000 live births in 1960 and 5 per 1,000 live births in 2003. In 2003, infant mortality was 76 in Haiti and 4 in Switzerland. The 1960 Korean figures are from H.-J. Chang (2006), *The East Asian Development Experience – the Miracle, the Crisis, and the Future* (Zed Press, London), Tables 4.8 (infant mortality) and 4.9 (life expectancy). All the 2003 figures are from UNDP (2005), *Human Development Report 2005* (United Nations Development Program, New York), Tables 1 (life expectancy) and 10 (infant mortality).