Image from Harper's Weekly.

"Gen. Harrison's Ideal of American Trade," which appeared in an 1888 issue of Harper's Weekly, pokes fun at then-presidential candidate Benjamin Harrison's support for high tariffs.

DEVELOPMENT

Develop as We Say, Not as We Did

Professor Peter Evans interviews Ha-Joon Chang, author of *Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism.*

Evans: In *Bad Samaritans* you make a strong, well-documented argument that the current policy prescriptions imposed by the developed countries of the North and the global institutions they control are not consistent with either the historical experience of developed countries themselves or with the experience of more contemporary cases of successful development, such as Korea or Taiwan. This raises an obvious question: "Why are policies without historical or contemporary evidence to justify them being promoted?" Two kinds of answers might be offered: 1) that the policies proposed serve the interests of the now developed countries and the corporations based in them at the expense of the interests of the Global South; 2) that the policies being proposed are consistent with the theoretical frameworks that prevail among economists working on development policy, who are blinded by their own theoretical paradigms. What do you feel is the relative importance of these two explanations in generating these policy prescriptions?

Chang: In short, interests and ideologies interact with each other in a complex way, so it is not possible to attribute exact weights to each of them.

Even the ideologues are partly driven by self-interest. Having built their whole career advocating a certain worldview, they have a lot to lose if they come to admit that they have been wrong. Also, championing a worldview that is comforting to the powerful brings them prestige, influence and financial gain. When you advocate ideas that serve powerful interests, you get more research grants, invitations to more prominent public forums, higher lecture fees and more air time and column inches in the media.

However, this is not to say that everything is driven by interests. Many of those who advocate free-market policies would actually benefit from different policies. This is a point that I emphasize in the book: allowing developing countries to use policies that suit them, rather than forcing them to adopt blanket pro-market policies, would promote economic growth in those countries, which in turn would bring more business to rich country corporations and employees in the long run. To the extent that people do not see this because of their ideological blinkers, we could say that ideology makes people ignore even their own self-interest.

Evans: Assuming that the dominant rich countries (most crucially the United States) are likely to continue being "bad Samaritans," creating a global policy environment that tries to limit the range of development strategies in which countries in the Global South can engage, what is the most effective response from the South? Is it effective for individual countries to try to engage in industrial policy "below the radar"? Is resisting multilateral and bilateral "free trade" agreements the key strategy? Or is the most important strategy collective resistance of the kind that occurred in Cancún in 2003?

Chang: Recognizing that the current global rules are not going to change radically any time soon, countries in the South should do everything they can to pursue necessary industrial policies "below the radar."

However, it does not always need to be below the radar, because there is still considerable "policy space" available. Under WTO rules, the "least developed countries" (LDCs), roughly defined as countries with less than $1,000 per capita income, have no upper limits to their tariffs and can use export subsidies, which other countries cannot. Even many middle-income countries can still use relatively high tariffs (30 percent or so). Developing countries can impose trade restrictions of up to eight years on the grounds of balance of payments problems or for infant industry protection. There are also certain subsidies that they can legitimately use (e.g., agriculture, research and development, regional equalization).

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The Japanese parliament building looms protectively over the Toyopet and its future, 1956.

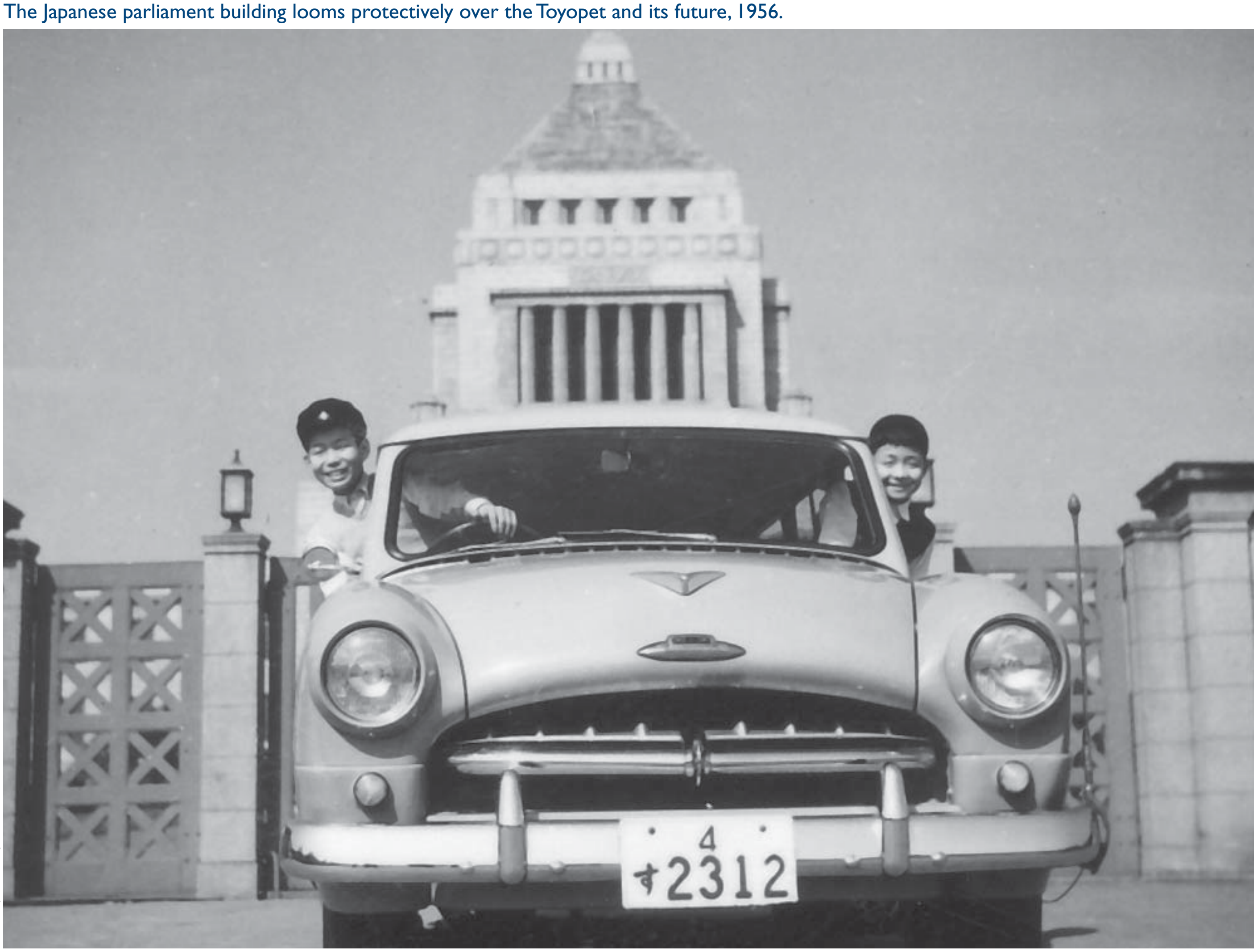

Photo by Asa-moya.

A new giant.
Photo by Vishweshwar Saran Singh Deo.

However, in practice most developing countries do not even get to use up all the policy space they have. Many LDCs have low tariffs because they have liberalized their trade due to International Monetary Fund/World Bank loan conditions, not because of the WTO rules. Others refrain from intervention because they are ideologically influenced by the orthodoxy.

Most worrying is the fact that the policy space for developing countries is constantly being eroded. The only way in which they can resist this shrinkage is through collective action in multilateral negotiations. By the same logic, bilateral negotiations are to be avoided at all costs, as most developing countries have very little bargaining power in isolation.

Evans: Your analysis in *Bad Samaritans* suggests that some kind of industrial policy is necessary for successful development. Yet, most scholars would agree that poorly conceived industrial policy can have anti-developmental effects (e.g., Peru's efforts to start an auto industry in the 1960s). Sanjaya Lall talked about "smart" industrial policy. Are there rules of thumb that you could recommend for Latin American policymakers trying to distinguish smart industrial policy from misguided industrial policy?

Chang: In my view, there are two important things that industrial policymakers in developing countries should bear in mind.

First, governments need to be realistic about the industries they pick and not to try to "jump" too far. By this I do not mean following the market signals. All successful industrial policies look "wrong" at the start because they go against market signals. It took 40 years of protection and subsidies before Japan could export its cars. When the Korean government applied for a loan to build a modern steel mill in the late 1960s, everyone thought it was a crazy thing to do for a country whose main exports were fish, seaweed and wigs made with human hair.

The second point is that protection and subsidies should be accompanied by investments in capability building. Without the protected firms ultimately raising their productivity to the international level, the resources spent on protection and subsidies will have been wasted. Therefore, firms need to invest in better machines, worker training and eventually research and development. Governments need to back these efforts up with policy measures — e.g., tax breaks or accelerated depreciation allowances for equipment investment, subsidies for R&D and training, mandatory training requirement for large firms and provision of training through public institutes for smaller firms. Successful countries are the ones whose firms and government have done these things well.

Evans: Most would consider state capacity to be one of the essential elements of effective formulation and implementation of development strategy. You argue that many currently developing countries have more state capacity than the original industrializers did at the time they industrialized, but presumably state capacity still remains an important determinant of developmental success. How important do you see the role of variations in state capacity in determining differential developmental success in the contemporary period?

Chang: When they were developing countries, today's rich nations were grossly lacking in state capacity, even by today's developing country standards. Most of them did not have a professional bureaucracy with meritocratic recruitment and promotion until the late 19th century (Prussia, which introduced such bureaucracy in the early 19th century, was the exception that proved the rule). If they were not openly sold, public offices were distributed according to political loyalty rather than technical competence. The judiciary was not much different, with many countries not requiring legal training for judges-to-be. Tax collection capacity was also limited.

In comparison, today's developing countries have relatively high state capacity. Of course, the problem is that they now have to compete with countries with very highly developed state capacity, which did not exist in the 19th century. However, it is wrong to think that a country cannot develop unless it has a state like that of Japan or Sweden. Many developing countries have achieved quite impressive development records in the last half century without having such a state. In this context, it is useful to know that, until the late 1960s, South Korea was sending its bureaucrats to countries like the Philippines and Pakistan for extra training.

There are countries where lack of capacity is a real constraint, but for most countries, the bigger issue is to recover the independence of mind that has atrophied under neoliberal hegemony. Once you lose it and try to replicate (a highly idealized version of) what the rich country states do, it is not a big surprise that you do not succeed. Developing countries need pragmatic states that can think for themselves.

Evans: The United State and other large, early developers relied on a combination of manufacturing and commodity exports (cotton, wheat, etc.). The recent commodity boom, driven in part by demand from China, has refocused many Latin American countries on commodity exports. What do you see as the principal benefits and pitfalls of a resource-based exports strategy in the contemporary "Sino-centric" global economy?

Chang: I have no objection to resource-based exports in and of themselves. After all, if they want to move forward, developing countries need to earn foreign exchange to pay for their imports of advanced technologies (e.g., machines, technology licensing royalties). So, if you have lots of natural resources to export, that is a good thing. Indeed, the reason why countries like Korea and Japan had to be so harsh with their workers was because the only thing they could export was cheap labor embodied in labor-intensive products.

However, the point is that these natural resources benefit a country in the long run only insofar as the export earnings they bring in are used to diversify and upgrade the economy away from those very resources. Few countries are fortunate enough to maintain a high standard of living solely on the basis of natural resources, especially in the long term, when technological progress may come up with synthetic substitutes for their natural resources.

The best illustration of this point is the U.S. It built a powerful economy on the basis of its cotton and wheat exports exactly because those earnings indirectly subsidized manufacturing industries. If the South had won the Civil War and liberalized U.S. trade, manufacturing development would have been retarded and the country would today look more like Argentina than the economic force it has become.

Evans: Can you give us two or three examples of what you view as the most successful development strategies in Latin America over the last several decades and explain briefly how these examples connect to your overall model of development?

Chang: The most successful example of economic development in Latin America is obviously Brazil between the 1950s and the 1970s. Even as late as 1961, Brazil was one of the poorest economies in Latin America, with $129 per capita income (in the same year, per capita income was $143 in Ecuador). By 1980, it had emerged as the industrial powerhouse of the continent. Mexico was another good performer. Between 1955 and 1982, per capita income in Mexico grew by 3.1 percent (contrast this to the growth rate of around 1 percent that it has recorded since Nafta).

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During these periods, Brazil and Mexico promoted new industries through protection and subsidies and had some significant successes (the best example being Embraer). In this sense, their experiences support the infant industry argument, which is at the base of my model.

However, the development efforts by countries like Brazil and Mexico had some serious limitations. First, they did not seriously attempt to develop their export capabilities, which meant that their economies kept hitting balance of payments constraints. Second, they often took the easy way out in terms of developing local productive capacities, by inviting in transnational corporations. This often gave them better products and higher productivity in the short run, but in the long run, it made them fall behind countries like Korea, which strictly regulated FDI and concentrated on building local firms with global standards. Third, they failed to improve income distribution, so the fruits of growth were unequally distributed, making people question the legitimacy of the development strategy.

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Photo courtesy of Embraer.

Members of the Smoke Squadron, an elite Brazilian Air Force team, put Embraer jets through their paces.