It is a privilege to have the opportunity to listen to the presentation of this very important book and interact with Ha-Joon Chang. For me it is also a very significant event for several reasons:

First, because not every day one has the opportunity to comment and have a dialogue with one of the leading economists of our time, who has been doing such important work to raise the consciousness of development economists around the key question of development economics “why have some countries succeeded with development and others failed?; getting the right lessons from history and about the policy choices for the future.

Second, the special significance for me comes from the fact that I met Ha-Joon during my last year at Cambridge, in 1986, that is 21 years ago!, which was the year he came to Cambridge to begin his graduate studies. He looked very young then, and reading his book I now find out that he was only 23 years old. Ha-Joon: Your former Cambridge colleagues are proud of you and of the nature of your achievements and contributions.

Third, this opportunity is personally very significant because this is a very serious and important book, based on a lot of academic work, previous papers and books by Ha-Joon, and it is one that takes stock with the whole neo-liberal policy establishment, including what Ha-Joon calls the “Unholy Trinity” of Bretton Woods institutions, but also many academics and rich country policy stances. In the words of Ha-Joon the book “deploys a mixture of economic theory, history and evidence to turn much of the conventional wisdom about development on its head”. The reader of this book is forced to re-visit his or her own positions and beliefs on almost every key development subject: trade and industrialization, regulation of FDI, the role of public and private enterprise and privatisation, protection of IP, macroeconomic policy, corruption and governance and the role of culture on development.

Each one of these themes is one chapter in the book, with an impressive list of references to the literature, and a display of erudite historical background. In each chapter there are lots of punches on the neo-liberal camp, some of them are near knock-outs.

On a serious note, this book is a challenge not just to the neo-liberal establishment, but to all those concerned with development, and it is intensive therapy. It is a book to put each and every one of us on our feet, alert and to train our intellectual muscles into shape. All of us who work in international development institutions are by definition Samaritans, but Am I a Good or a Bad Samaritan? Does my historical knowledge, policy beliefs and positions contribute to the aspirations of developing countries?. These questions, addressed at our own conscience, are the kind of self-assessment that reading Ha-Joon’s book confronts one with. The book is also great fun to read, because it is extremely well written, with a good balance of anecdotes, good humour and wise quotes.
But a discussant cannot just sit here and praise the man and the book. Let me put a bit of spice in the mixture by giving you what I think about some of these issues. The problem is that this book goes back to basics and fundamentals, and it is not possible to comment on it without somehow opening up one’s soul as a development economist to confess all of ones sins, virtues and belief systems. Perhaps this is why Rolph invited me to comment in this occasion, to see what the Employment Sector ED’s development credo is! And of course this is a very tricky thing to do in this Tripartite organization, where often we do not have one correct answer on an issue but at the very least three… and sometimes very different. But one lesson to draw from this book is that we must be relentless in looking at the historical record, at the evidence, and be prepared to re-visit our views when necessary.

**Trade, trade policy and industrialization**

Chapters 1 and 2 of the Book present what Ha-Joon calls, the “true history of capitalism and globalization” as compared with the “official history”. These are extremely educational chapters to read. The argument is that many supposed historical facts are either wrong or partial truths. I think Ha-Joon is very convincing in demonstrating that Britain and the US are not the homes of free trade in their early industrialization; that while not all countries have succeeded through protection and subsidies, few have succeeded without them; that for developing countries free trade has not been a matter of choice but of imposition; and that the best performing economies have been those that opened up their economies selectively and gradually, not through “big-bang” free trade. I fully agree with all these assertions.

But I would like to raise some qualifications on two of the arguments in these chapters and on chapter 3 on trade: (a) that most developing countries have done poorly with trade liberalization, and did better under protectionism; and that, (b) neo-liberal policy did not achieve neither growth, nor equity nor stability.

a) **The growth records of “protectionism” and “free trade”**

The first claim is based on the observation that developing countries in LA and Sub-Saharan Africa grew much faster during the supposedly “bad old days” of protectionism than they have done in the last two decades in the “brave new world” of neo-liberal and free trade policies. I am not disputing the facts and the data (rates of growth were actually higher before than in the recent period), but I would like to introduce some nuances on the interpretation of the facts, for Latin America and Africa.

Latin America did grow more during the Import Substitution Industrialization (ISI) period than afterwards. But there are two problems with this comparison:

(1) Most analysis coincide that ISI was getting to a point of exhaustion given the limited size of the market. Even Raul Prebisch himself, the father of the ISI strategy, in his 1959 book entitled “The LA Common Market” and in a 1964 article, argued that protection had been overdone and that LA should promote a common market for growth to continue, and lower tariffs quite substantially to eventually export manufactures to the developed countries. Latin America did this but only 15 to 20 years after Prebisch’s warning. The question is: would LA have continued growing at those good-old-days rates, if it had continued with high protection, or was the ISI strategy quite exhausted anyway given the small size of the market, even under regional integration?
(2) The second problem with this simple comparison of growth rates during the ISI period and the following neo-liberal period is that in between, you had the debt crisis of the early 80s. It is not possible to argue that the debt crisis is due to the neo-liberal policies, since they were not in place yet, and Ha-Joon is not saying this. The fact is that the debt crisis which engulfed all Latin American countries was no due to globalization but was really endogenous to the ISI policies. Why do I say this? Because, the exhaustion of the ISI strategy and private investment after two decades or so depending on the country, led most Latin American countries to seek to deepen industrialization based on stepping-up public investment via proliferation of State Owned Enterprises financed by foreign debt. This was the period when all countries either created or expanded state holding companies tremendously. Each country had one: NAIFIN in Mexico, CORFO in Chile, CODESA in Costa Rica, etc. The idea was not bad in theory but implementation was generally quite disastrous. With few exceptions these public enterprises borrowed massively to finance ambitious investment plans. This is the major factor behind the debt crisis, of course exacerbated by high international interest rates. But even if international interest rates had not peaked when they did, the sheer size of the foreign debt meant that this strategy was unsustainable, and was heading to a crash sooner or later.

Why is this argument important? Because the low rates of economic growth after the debt default, not just in the short term in the 1980s but well into the 1990s, are attributable to the impact of the debt burden and the macro-policies that were put in place to service that debt. And attention here, you cannot just blame those macroeconomic policies as part of the neo-liberal paradigm. Of course one can agree that stability was overdone, and macro-policies were unnecessarily draconian in many cases, but the fact remains that a good part of the “growth failure” well into the 90s is attributable to the lagged and cumulative effect of the misguided attempt to deepen the ISI model through excessive state investment and borrowing, and continued excessive protectionism, as Prebisch himself had warned.

So I agree that the neo-liberal establishment has distorted the history of globalization, and has combined this misinformation with arrogance and a propaganda machine backed by lots of money and power, as Ha-Joon argues, but the true history of globalization that Ha-Joon is trying to rescue and is contributing to write and make accessible, also has to recognize that “the good old days of protectionism”, at least in Latin America, were not there to last and were not sustainable under the ISI model, unless, and I am sure Ha-Joon will share this evaluation, trade protection and state intervention had been done in a more intelligent way, perhaps a la South East Asia. If it had followed Prebisch’s advise, Latin America should have transitioned into more open trading regimes and export promotion policies much earlier than it did. It didn’t partly because of state capture by industrial interest and lobbying.

The Africa “growth failure” story is quite different. What explains the low growth record of Africa? Is it neo-liberal policies or what other factors are at play? As Paul Collier argues in his book “The Bottom Billion”, most African countries are caught in a series of traps: a conflict trap, a natural resource trap, a bad governance trap, and 38 % of people in Africa live in countries which are landlocked. Under these circumstances I would say that the application of the neo-liberal orthodoxy in Africa is part, but only part of the explanation of the low record of growth in the region, and I agree with Ha-Joon that adherence to neo-liberalism will probably make things worse in many countries, particularly if you adhere to a “big bang” approach to trade liberalization. A region that needs creative policies and flexibility, cannot be put into Tom Friedman’s “Golden Straitjacket” or other easy one-size-fits-all slogans. But this does not mean protection can be overdone, as was the case in Latin America.
African countries need to combine reasonable protection with open regionalism and measures to promote exports.

I know Ha-Joon is not an advocate of “across the board import substitution” and that he believes in trade but based on what he calls “a clever and pragmatic mixture of market incentives and state direction”, as in some South East Asian countries. He also talks about “purposeful protectionism” and tells us that “the intention behind successful protectionism was always to fully join the world economy”, and that his needs a “judicious mix of protection and open trade”.

So I would like to ask Ha-Joon what kind of trade policy he would recommend for poor economies like most of Africa. Regional integration and open regionalism? If so, under what level of the external tariff? People who oppose high tariff protection in poor countries say, provocatively that “if you combine a number of poor, slow growing individual economies, you get a poor slow-growing regional economy? So how do you get the balance right? Should Africa engage also in “infant industry” export promotion? And if so, is there any role in this for bilateral Free Trade Agreements with developed countries? Or Economic Partnership Agreements (EPAs) with the EU? What kind, if any, of EPAs would be useful for Africa? The reason I ask about these and not the WTO is that these would probably promote freer trade and much more binding rules for Africa than any plausible result from the Doha Round.

These are some of the difficult questions Africa is facing today and I would invite Ha-Joon to tell us a bit more about what he thinks about these trade and globalization policy choices in Africa.1

(b) Neo-liberal policy did not achieve neither growth, nor equity nor stability.

Ha-Joon argues that neo-Liberal globalization has failed to deliver on all fronts: growth, equality and stability. Is this the right conclusion from the true history of globalization?

- On growth, I already commented. To reiterate, I agree there is a “growth failure” problem with strict neo-liberal policies, and that performance has been disappointing and below the expectations at least of the most optimistic supporters of the reforms. And this should be embarrassing for them. But, the important question here is: what does this mean for future policy? Does it mean we have to go back to “good old days” protectionism. I do not think so, and I don’t think this is what Ha-Joon is arguing. What I hear Ha-Joon saying is that trade is needed, and integration to the world economy as well, but under a strategic and intelligent, rather than an unconditional,

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1 My own answer is along the lines of what Paul Collier has suggested:
- Regional integration is a good idea, but not behind high external barriers
- Africa needs export promotion and export diversification. Evidence shows exporting is key to raise productivity. So for Africa to get a dynamic manufacturing sector is more likely to come from exporting than from generalized protection for ISI. But Africa should be allowed to engage not in free trade but in export promotion.
- Africa needs temporary and special protection, particularly from Asia, in its own markets and in developed country markets (eg AGOA, Everything but Arms). But with good rules of origin; long periods of certainty, not three-yearly renewal; and inclusive in terms of countries participating to improve the neighbourhood in general not just the Least Developed (Pan African coverage).
- In the WTO: you need non-reciprocal reduction in trade barriers, a transfer, a gift, not a deal. Problem of two contrasting cultures: deals –bargaining- and transfers, which are now confused.
one-size-fits all integration with the global economy. And that trade agreements may reduce with negative consequences the freedom of choice for poor countries. And I agree that this is a risk. Although in my mind this does not necessarily mean rejection of trade and integration agreements but appropriate design.

- On equality I agree with Ha-Joon without qualifications. Neo-liberal policies have not paid sufficient attention to the social agenda and the distributional consequences of policies, and this is part of the increased inequality in many countries. But on the true history let me also remind you that the ISI model in Latin America and the “good-old-days of higher growth” were not characterized by much equality either, and in fact strong trends towards marginalization and exclusion.

- On stability, Ha-Joon argues that the developing world has seen more frequent and larger-scale financial crisis since the 1980s. Again I would say it depends on how one measures them and I would say one has to look at them by region and in historical context, not just in the aggregate. At least in Latin America in the “good old days” high inflation was the norm and hyperinflation episodes were frequent in many countries. The financial crises was a relatively new phenomenon to South East Asia in 97-98, but they were endemic in Latin America under ISI in the previous decades. I think Latin America benefited from learning the lessons about the costs of economic instability and the benefits of macroeconomic responsibility. Even Mr Lula and other new leaders from the left seem to be conscious of these lessons, and are trying to achieve growth, poverty reduction and social equality while maintaining good macro balances.

Finally, I would also like to comment on Ha-Joon’s view, that I broadly share, but where I have some doubts, that only industrialization can deliver sustainable growth, because industry is the only sector in which rapid and sustained rises in productivity are feasible. As Edmund Phelps commented in the Financial Times debate on Bad Samaritans, “the neoclassical prescription is to forget about the question of the best industrial directions to take and leave that to the magic of the market (which) would work out what a country’s comparative advantages are”. Like Ha-Joon, Phelps and many other economists, I am firmly on the camp that rejects this view, and in favour of tilting the playing field to climb the ladder of comparative advantage. We just talked about the how, and the role of protection, but what about the what? Should we give priority to industrialization? What is the role of agriculture and services? Can a country promote its development based on services and high value added agriculture? I know the reasons to prefer industry but I also think we should be open to think about the role of these other activities.

**Should we regulate Foreign Investment?**

Chapter 4 of the book deals with the question whether governments should regulate foreign investment and how. I agree with the all the points by Ha-Joon on financial capital, the risks of volatility and of premature opening of the capital account, the need for appropriate regulations to mitigate negative effects of volatility, etc.

I want to comment on what our common friend Gabriel Palma calls the Mother Theresa of Foreign Capital, that is, FDI. Is it really? This is another question that Ha-Joon poses. True, there are many limitations and problems that the author reviews and that can potentially make FDI less of a Mother Theresa than commonly thought, but, like the author, I still think FDI
can bring many benefits, the question is under what policies and regulations? And here, let me again be a provocative discussant and plant some doubts.

Ha Joon presents evidence of how nationalistic towards FDI the US was in the 18th Century and all the way to the early 20th Century. He also documents how China today has a very selective policy towards FDI. He also goes over the experience of other East Asian countries. This is in the context of arguing that countries should maintain flexibility to have discretionary or discriminatory policies against FDI.

For instance, the example is given of President Andrew Jackson who in 1832 refused a licence to a quasi-central bank for nationalistic reasons, and stated that having that bank in the hands of foreigners could be “far more dangerous than the naval and military power of the enemy. If we must have a bank, it must be purely American.” One could add that even recently the US refused an Arab company to have concessions over US ports, and there is a lot of concern in the US over Japanese ownership of Hollywood firms, etc.

But one can also argue that cross investments are also reasons for countries to develop common economic interests that can contribute to stability and good international relations. For example, the mutual interests of investors and traders developed through the Central American Common Market in the 60s and 70s was a major factor in mobilizing the private sector to support peace in Central America in the 1980s, relaunch the Central American Common Market in the 1990s and it is a major factor of strength for the regional integration process today. Another example is that modern day Chinese holdings of US Bonds and financing of the US trade deficit explains much of the US policy towards China, and the limits of US nationalism vis a vis China.

I would also tell Ha-Joon that the case of small and relatively weak economies can be very different from the US and China. FDI would do anything to go to the US and China and fight for market shares there because the market is so large and they just cannot afford not to be in the largest expanding economy of the time. But is this the case for the small countries in Central America or Sub-Saharan Africa? Under modern day conditions there is a lot of international competition to attract high quality FDI and maximize benefits from it. So what are the right policies today, particularly for the smaller economies? I am not convinced that 18th Century US or even modern day China are necessarily models for most developing countries in this respect. I do agree that countries must have flexibility and freedom to choose what is best for them in terms of FDI and I do agree that some in the neo-liberal camp would like to take away this flexibility. So Ha-Joon warnings and education by reviewing history are very useful. But two additional points should be raised:

First, the issue of investment is not in the WTO, most developing countries rejected this in Cancun, despite strong pressure from developed countries, and they did so for the kinds of reasons Ha-Joon discusses in the Chapter. Bilateral FTAs do have investment chapters, but these are negotiated chapters, and there is quite a lot of room for developing countries to make reservations and keep even whole sectors out of the commitments of FTAs.

Second, there is indeed pressure from developed countries and some MNEs to remove performance requirements and have so called national treatment, that is, treatment to FDI equivalent to the treatment given to national investors. Whether to reduce or not the scope to impose performance requirements is a controversial issue. New research suggests that performance requirements might not be as effective as normally portrayed and might even be
counter productive, particularly in some sectors. For instance, Theodore Moran and research quoted by him, that contrasted the experience of countries that have used plants from foreign investment to substitute imports with countries that have used them for outward-oriented growth found that MNEs responded to host country strategies of import substitution with the creation of plants just large enough to meet local needs. In the auto industry and computer industries, for instance, domestic content requirements did lead to some manufacture of indigenous components but as a rule local suppliers did not have orders large enough to support the technology that was standard in world class auto parts or computer parts fabricators. It was also found that Joint Venture requirements provoked the parent MNEs to use older technology.

The alternative approach, that is, attracting MNE investors to produce goods for export, rendered quite different results. As MNEs built factories that were integral to their ability to compete in international markets, they generally designed the plants to take advantage of all economies of scale, and incorporated the most advanced production technology and quality control procedures know to headquarters. Under this outward looking approach, to ensure their ability to have a coherent multi-country strategy, MNE headquarters normally insist on having wholly-owned or majority owned affiliates that are free from domestic content requirements. Under this approach evidence from the last ten years reveals that many MNE investors are increasingly expanding the responsibilities of plants in developing countries. In the electronics industry MNE affiliates in Singapore, Hong Kong, Malaysia, and Thailand were assigned design and development functions for increasingly sophisticated subassemblies and functions. In the auto industry, MNE plants in Mexico and Brazil were given responsibility for high performance engines that were perfect substitutes for the best produced in the United States, Europe, or Japan. MNE auto exports of vehicles and parts from Mexico grew from very small numbers in the1970s to more than $42 billion per year in 2006, employing one out of every eight workers in the Mexican manufacturing sector. In the auto industry, this process is now being replicated with the EU enlargement to the East.

As regards backward linkages there is also increasing evidence that outward oriented MNEs are setting up “vendor development programmes” searching out indigenous parts suppliers and providing them with advice, drawings, design specifications, equipment recommendations, quality control procedures, etc in order to create a viable component base. And when this happens the purchase orders are typically large enough to allow local suppliers to reach full economies of scale.

There are then two contrasting approaches on how to maximize benefits of MNE investment in host countries: one that uses intensively performance requirements and one that leaves MNEs quite free to design their competitive strategy. In a number of industries the latter seems to be a superior method of maximizing the benefits of technology transfer and developing local suppliers. Even recent research from China confirms the benefits of this latter approach. Drawing on the responses from 442 MNEs operating in China in 2003, a study recorded that foreign wholly-owned and majority-owned affiliates are much more likely

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to utilize technology as advanced as used by the parent firm than affiliates that have 50-50 shared ownership or affiliates that have majority indigenous ownership.\(^4\)

In conclusion, I agree with the point about the need for developing countries to have policy space, but I have serious doubts about exactly how should developing countries fill that policy space and with what instruments to maximize the benefits from FDI. I think the jury is still out there on these matters.

**Final Comments**

To conclude, I find much to agree with in the following chapters of the book on issues such as the need to be pragmatic and not ideological on state ownership and the pitfalls of privatization; the high costs for developing countries of excesses in intellectual property protection and the importance for developing countries, as Ha-Joon diplomatically puts it, to “borrow” ideas, and the policy conclusion about the need to get the balance right.

I also agree that financial prudence can, and has, in many cases gone too far, to the detriment of growth, employment creation and poverty reduction. However, inflation is harmful, and I am not sure that rates of inflation as high as 30% or 40%, as Ha-Joon suggests, are to be considered within the comfort zone for both stability and for social objectives. But I agree that an obsession with having inflation below 5% or even below 10% is just that, an obsession and that strict price stability can come at a high and unnecessary price for growth and development.

On the chapter on corruption I also totally agree that the relationship between corruption and economic development is a lot messier than many, including the Bad Samaritans, would have us believe, and that corruption has become too easily a misguided universal diagnosis for the problems of a country. I also agree with the point that it has been used as a convenient justification for the reduction of aid commitments. The so-called “war on corruption” can be a distraction to countries and societies from facing other more urgent problems and constraints on their development. Although it is true that corruption can have negative consequences, putting an end to bribes, kickbacks and payoffs will not necessarily solve any of the deeper problems. In fact, this belief can make it harder to get public support for other reforms. For instance, tax reforms can be impossible to pass when the general assumption is that any new public revenues will be wasted because of corruption. I am not so convinced, however, by the point that corruption exists because there are too many market forces, not too few. I have the feeling that this is stretching the argument.

Let me finish by reiterating that this is a very rich and challenging book. I think Ha-Joon provides a great intellectual boost to key debates of development economics today.

And very importantly he ends on an optimistic note. He believes the Bad Samaritans can be changed and made to help developing countries.\(^5\)

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\(^5\) He is analytical even on this point, distinguishing two types of Bad Samaritans: the bad faith ones that want to make countries “kick away the ladder” (the ladder kickers); and the good faith ones, that do not even realize that they are hurting the developing countries with their policies, and have the honest but mistaken belief that free trade, free-market policies were the routes their own countries took to become rich. He says that sometimes these
Ha-Joon, let me finish with another question: the ILO is a Tripartite organization, within each corner of Tripartism there might be Bad Samaritans, either of the bad faith-“ladder kicking” sort or of the “good faith-honest mistake” variety. But we firmly believe that Tripartite consensus almost always results in Good Samaritanism through social dialogue. Do you see this as a strength of this institution? And how do you think we can best build on it?

Bad Samaritans may be more of a problem than those knowingly engaged in “ladder kicking” because self-righteousness is often more stubborn than self-interest.