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Book Review

Ha-Joon Chang, *Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism*, New York: Bloomsbury Press, 2008, 287 pp.

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Ever since the development of modern economics from the days of Adam Smith onwards, one of the central questions of economics has been what are the necessary and sufficient criteria for economic growth and ultimately economic development. Smith argued that economic growth is best encouraged with unrestricted markets and free trade. These two considerations became central to what became known as capitalism. In economic history the received doctrine has been that what made Britain wealthy was its commitment to free markets and free trade. A corollary of that argument has been that the role of government in the operation of the free market should be reduced to a minimum. But over time, free markets in practice did not consistently yield economic growth. The maturing capitalist system was often prone to recession and capital losses after periods of growth. The social impact of these recessions was invariably made manifest by lack of effective demand, increased unemployment, and loss of productive capacity. This became the basis for Marx's analytical critique of capitalism.

The Marxian critique of capitalism was so effective that a whole research school of Marxism developed with one of its most prominent members being the Russian revolutionary, Lenin. The main argument here was that free market capitalism was not sufficiently reliable to foster economic growth and development. Accordingly, the major role in the growth and development of an economy was assigned to government under the rubric of communism. Private capital would no longer be allowed to play the central role it plays in free market economies. The state would own and marshal most productive capital in the areas both of individual and collective consumption. In the case of the Soviet Union, this alternative to capitalism did produce much growth and development in the areas of heavy industry and infrastructure but was much less efficient in the area of individual

consumption where state monopolies proved to be not so efficient in the central economic area of supply and demand.

But with the transformation that took place in the Soviet Union twenty years ago with the replacement of the state as the major production unit by the market system, the new belief was that there was no alternative to free market capitalism. This theory was generalised into what is called 'neo-liberal economics' which advocated minimal government intervention in a country's economy and untrammelled free and open trade in the international economy. This was the dawn of the new era of 'globalisation'. So for countries whose goals were economic growth and development, the confident prescription was free markets, free trade, and minimal government intervention in the economy.

The truth is that this prescription has not worked for the vast majority of the world's developing nations, and much more so for those of Africa. For example, the United Nations tabulated Human Development Index for 2011 places most of Africa' nations in the 'low development' category, despite the fact that these nations have been serenaded non-stop about the virtues of the neoliberal paradigm. This problematic situation has been increasingly addressed by heterodox economists such as Erik Reinert (How Rich Nations Became Rich and How Poor Nations Stay Poor, 2006), Joseph Stiglitz (Globalisation and its Discontents, 2002) and Ha-Joon Chang. Their approach is strongly critical in that it rejects the neoliberal open-markets approach with its touting of the Ricardian and Hecksher-Ohlin approach to global trade interaction. In short, what the heterodox economists are demonstrating is that the empirical evidence falsifies the neoliberal model. Their work is to be understood as an effective counterpoint to the neoliberal works of economists such as Jagdish Bhagwati, Deepak Lal, Paul Collier, William Easterly, Dambisa Moyo, et al.

A recent example of the mentioned heterodoxy is Ha-Joon Chang's Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism. Its importance derives from the heterodox thesis that the prescription of free markets and free trade in a context of minimal government is not necessarily the best recipe for growth and development. He proves this point simply by demonstrating that the major industrial nations did not practice what they now advocate. Chang produces instances of historical evidence that demonstrate that the nations that now tout the free market neoliberal model as optimal for growth and development were strict protectionists in those areas where they sought to improve their productive capacity. Chang offers the example of how England under the reign of Henry VII was eventually able to capture the wool manufacturing market by first imposing high tariffs (45% in 1820) on English wool exports then hiring skilled workers from the

Low Countries (Chang:41). According to Chang, the United States also developed its industrial base along such lines, under the recommendation of its finance minister, Alexander Hamilton, who in 1791 argued for the protection of 'industries in their infancy' so that that they could grow and develop without competition from established competitors. Chang makes similar arguments with respect to the path chosen by South Korea and Taiwan as they sought to modernise their technological base in the 1970s. South Korea engaged in international trade during that period in the form of the judicious import of modern technology but not actually engaged in free trade (Chang:82). As Chang puts it: 'As South Korea shows, active participation in international trade does not require free trade. Indeed, had South Korea pursued free trade and not promoted infant industries, it would not have become a major trading nation. It would still be exporting raw materials (e.g., tungsten ore, fish, seaweed) or low-technology, low-price products (e.g., textiles, garments, wigs made with human hair) that used to be its main exports in the 1960s' (Chang:82).

In fact, what Chang succeeds in doing is to overturn the key elements of the received neoliberal doctrine. Another important case in point is the neoliberal argument that that free markets coupled with 'democratic' government is the best synthetic combination for growth and development. His argument here is that the periods of greatest growth and technological development for modernising nations like South Korea and Taiwan were during times of what many regard as 'authoritarian' government. Chang states, in this regard, that 'there are cases like South Korea , Taiwan, Singapore and Brazil in the 1960s and 1970s or today's China that have done very well economically under dictatorship'. But there are cases in the West for which increased democracy went hand-in-hand with economic growth (Chang:178). Although this would make the impact of democracy on development ambiguous (Chang:179), it would seem that the impact of development on democracy is more straightforward (Chang:179). Chang: 'it seems fairly safe to say that, in the long run, economic development brings democracy' (Chang:179).

But this is not all in Chang's critique of the neoliberal thesis. He also points out that the neoliberal mantra that the most efficient firms are necessarily those that are privately owned and subject to the laws of the market, is also not necessarily the case. In this connection, there is the interesting paradox that there are state-run enterprises that have been so successful that they are eventually totally or partially privatised (Chang:111). By way of examples of efficient well-run state enterprises, Chang offers the cases of Singapore Airlines, Renault (France), Petrobras (Brazil), and POSCO (Korea).

The question now is: given the lack of clear-cut answers as to how a nation should develop, there are those theorists who have argued that the

deciding variable is the cultural matrix from which individuals operate, in terms of their daily outlook and decision-making. Yet, here again, Chang shows that 'culture' as an explanatory variable is just as unreliable. In contemporary times the Germans and Japanese are noted for their very serious work ethic founded on 'rational' approaches to important economic variables such as time and productivity. According to Chang, at one time the Japanese were seen as indolent and lazy while the Germans were seen as dishonest (Chang:197), which is the opposite of how they are seen today. Chang writes: 'In other words, many of the "negative" forms of behaviour of the Japanese and Germans in the past were largely the outcomes of economic conditions common to all economically underdeveloped cultures, rather than their specific cultures' (Chang:195-196).

Given Chang's argument that the neoliberal model is not the best for developing nations, what specific paths to development does he advocate. His key argument here is that developing nations should seek to target specific manufacturing industries and attempt to nurture and protect them from competition over the long run. Chang points out 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' (Chang:212). Chang sums it all up with the following: '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' (Chang:215). In terms of present-day examples, Chang points to the manufacturing success stories of Switzerland and Singapore (Chang:215).

So what does all this mean for Africa's nations now carrying up the rear in terms of developmental indices world-wide? The very first necessity is access to adequate capital for the goals at hand. Korea and Taiwan were fortunate in that they were able to obtain capital from the West – mainly the US – to stave off what was perceived as a communist threat from North Korea and China respectively. If the IMF and the World Bank are bypassed, then what are the possibilities? Well, Libya bypassed both BWIs and was still able to develop to the extent of topping the African Human Development Index list (2011). Given that Africa is very resource-rich area it is certainly possible that with the establishing of a stronger banking system real development could be a possibility. There would need to be the creation of viable economic zones of regional proportions. Such zones would operate with single common currencies and with the free flow of labour, goods, and

services. This is what follows logically from Chang's critique of the neoliberal paradigm now being sold to Africa's myriad and economically problematic nation states.

Chang's thesis should be seen therefore as one side of the developmental equation especially for the nations of Africa. That side states clearly that the neoliberal advice offered by the West's economic pundits at its research universities or the Bretton Woods institutions is not in the best interests of those nations that are seeking to develop. The other side of the equation – not offered by Chang – as it applies to Africa would require a fundamental overhaul of Africa's basic economic structures. This side of the equation – already intimated above – would involve initiatives such as regional integration with free movement of goods, services, etc., single currencies, strongly capitalised central banks, efficient bureaucracies, etc. Add to all of this massive and coordinated investment in human capital which would serve as the catalyst and base for the autonomous investment argument. The truth is that infant industries in manufacturing would require a steady flow of engineers, technologists, business managers, etc. Only heavy investment in human capital could achieve this.

Yet in all of this the important question remains: why is it that only a very few non-Western nations have been able to make the transition from growth to development to yield the kinds of results that one now notes in countries such as Taiwan, South Korea, and China in more recent times, and Japan in an earlier period? What did they do right? What is interesting in any analysis of the East Asian developmental state is that although the historical circumstances of the different nations were different, there does seem to be among them the common feature of strategic planning undertaken by government. The governments in question invested in particular enterprises either totally or in partnership with local businesses. In the case of Japan, its leadership recognised soon after Commodore Perry's threatening naval incursion into Japanese territory (1854) that Japan had to undergo a technological revolution in order to guard against conquest by the West. The Meiji restoration (1868) set the foundations for foreign firms initially being granted investment concessions on Japanese soil. The Japanese, in due course, were able to replicate the modern manufacturing and industrial processes on Japanese terms. One key advantage they enjoyed when compared to present circumstances is that Western capitalism and military power had not attained its current level as in contemporary times. Japan's transformation from a feudal society into a rapidly industrialising one was made possible, in the final analysis, by a creative and goal-directed government. Japan demonstrated its newly acquired heft by its defeat of Russia in the war of 1905.

Parenthetically, it is this war that helped Russian Marxists to adopt the policy of a totalising state capitalism to embark on rapid industrialisation under the political leadership of Lenin. China's embrace of Leninist state capitalism under Mao was also undertaken for precisely the same reasons: how to rapidly narrow the technological gap between the West and a militarily weak and economically vulnerable nation.

In the cases of South Korea and Taiwan, land reform and industrialisation were encouraged by the United States in its fierce competition with the Communist bloc for ideological and geopolitical supremacy. Taiwan was the foil for the People's Republic of China while South Korea played the same role with regard to North Korea. There were regular infusions of capital that were deployed by the authoritarian governments of South Korea and Taiwan. Strategic usages of such eventually led to the qualitative transformations that have put South Korea and Taiwan on the short list of non-Western nations that have successfully industrialised to high levels of technological achievement. But the industrialisation project in East Asia was not only one of just growth and capital accumulation; there were also massive investments in education and human capital development. The real results of this approach were first world wages, low Gini coefficients and human welfare payoffs in the sense of much increased life expectancies, low infant mortality, and improved gender equity. Without such investments Taiwan and South Korea would not have developed in any genuine sense.

The lesson here for Africa is strategic planning with both government and private investments, not to the mostly tiny, capital-poor countries of Africa but to whole regions without regard to the self-serving boundaries drawn up to serve the needs of the colonial enterprise. The Cold War is now over, which means that capital from the West would be obtained only at great cost and with political strings attached. But Africa's trump card is its great amount of natural resources as the Chinese government has already discovered. The problem here though is that Africa's resources are not spread around evenly, hence the pragmatic need for regional integration and the strategic pooling of resources.

In sum, Chang's Bad Samaritans is a must read for Africa's economists and economic planners. It is a refreshing change from the mantras of neoclassical and neoliberal economics that are invariably urged on African economic planners and governments by Western financial institutions such as the IMF and the World Bank, whose ultimate goal is to maintain Western economic and financial control of Africa's resources to the detriment of its populations. I must, however, question Chang's stated belief that the industrialized nations of the world – the West especially – could be persuaded

to welcome the industrialisation of those nations that are seeking to move away from being just raw materials producers, because it would be to the advantage of all parties (Chang:220-222). He claims that there is at least one instance when the rich countries did not behave as bad Samaritans. He is referring here to the Marshall Plan of 1947 that helped rebuild a destroyed and economically weak Europe after WWII. But this is a seeming altruism; the Marshall Plan was motivated mainly by fear of Communist expansion into the heart of Western Europe. The plain fact is that the Western industrialised nations gain greatly from the uneven economic playing field that is this world. They see economic competition between the West and the rest of the world as a zero-sum game. Moral persuasion even with gains for all will not budge them from their consciously or subconsciously assumed belief that the West should stay supreme at all costs. African governments and economic planners would be naïve to see things otherwise.