13 Globalization and economic development

Ch'u Wan-wen

1 Introduction

China joined the WTO at the end of 2001. How does this impact upon economic development in China? This will prove an important issue. In addition to the impact of specific issues such as WTO regulations and the conditions for joining GATT, the central issue remains the impact of globalization on economic development. That is, if underdeveloped countries such as China participate in the process of globalization, will it be advantageous to their economic development? Thus, before addressing the impact of China joining the WTO, we must discuss the impact of globalization.

The term *globalization* has become a mainstream everyday word, but what is its real meaning? Is it an irresistible trend? With participation in globalization, will underdeveloped countries lose their independence and fall into the margins of the global capitalist economic system?

Among the theories about the impact of globalization, mainstream economics as represented by neo-liberalism are in the dominant position in the world. Neo-liberalism is the neo-conservative ideology that has been popular in Europe and the United States for the past thirty years. The scholars of neo-liberalism believe that the free market is the best mechanism for solving economic problems and promoting growth. Based on the theory of interest comparison they think that any country can find a position which suits its conditions for joining the division of labor in the international market. Since the division of labor must promote efficiency, free trade is the best mechanism that can benefit all the participants. As for capital flow, these scholars think that direct foreign investment (the actual investment in industries) will inevitably bring advanced technology and will be advantageous to the local economy. However, if free trade is supposed to bring about the free flow of financial capital and the complete opening up of capital accounts, resulting in a win-win outcome, then this scenario is controversial even among neo-liberals.

Neo-liberals explain that globalization has emerged because the development of transportation and communication technology greatly lowers the cost of circulation, thus easing trade and investment flow among countries, or they cite GATT/WTO[1] trade negotiations and the liberal policies guided by the United States in recent years. In the eyes of neo-liberals, since free trade is the best strategy, it is justifiable to press underdeveloped countries to open their markets and implement liberalization, both of which have been advocated in the past twenty years by the American government and organizations such as the IMF.

The neo-liberal point of view is currently still in the dominant position in the world. Neo-liberalism is being challenged by the so-called revisionist school, whose criticism is a revision, not a complete rejection. In recent years the debate mainly encompasses issues concerning developing countries in East Asia, the role of industrial policy, how to conduct economic reform in former socialist countries, the World Bank and IMF forcing underdeveloped countries to implement free-market policies, and global financial liberalization causing the financial crisis and instability of international finance (these theoretical debates will be discussed in Section 3 below).

The revisionist school neither totally opposes globalization nor does it advocate that underdeveloped countries refrain from joining the international market and the WTO. It mainly challenges the free-market theory, and offers different opinions about systems and policies.

Dependency theory, which used to be very popular, advocated that underdeveloped countries refrain from joining the international market, but the influence of this theory is very insignificant now, even in the anti-imperialist camps of the Third World. However, in advanced countries, such as the United States, unions that have been advocating protectionism, and their allies who oppose globalization, sometimes use this theory to justify protectionism, and to claim that protectionism will not harm Third World labor.[2]

Many underdeveloped countries have made extensive progress along the globalization path. Among them, East Asian countries have gained benefits in the process of globalization. Although other underdeveloped countries have not gained many benefits, they can yet hope to achieve good conditions when they join the international market in the current situation. Only an economic body such as China – which was late in opening its doors and which has a vast inland territory – had the room to weigh the gains and losses when it considered joining the WTO.

This chapter is a concise review of the phenomenon of globalization and systemic transformation. It mainly discusses the revisionist school's point of view on the impact of globalization on underdeveloped countries.

2 The globalization trend

The transformation of the global system

The continuous increase of the integration of the international market is not a new phenomenon. This phenomenon emerged in the fifty years before World War One. However, during the period between the two world wars protectionism and control became very popular. Moreover, there were hostilities between the world powers over the control of global regions. With the end of World War Two, when the United States re-established its hegemony, advanced countries such as the European countries and the United States restarted the process of integration in the post-war era.

After World War Two the blueprint of the world economic order was based mainly on the design of Keynesianism. The plan was made at a meeting in Bretton Woods, in the United States. Compared with the bad experience before World War Two, the newly established system focused on the stability of order and control. Advanced countries used financial and currency policies to adjust domestic economies, maintain fixed exchange rates and capital control, and at the same time established the World Bank and the International Monetary Fund in order to maintain order in the system. Having experienced the failure of pre-war protectionism, the advanced countries established GATT in 1947, and decided to open their markets to each other and gradually lower tariffs.

There were only twenty-three members when GATT was established. The order and system of GATT were naturally decided by the European countries, while the United States and the opening of markets concerned only advanced countries. When many colonies achieved independence after World War Two, the United States was in no hurry to force underdeveloped countries to open their markets as it does now, perhaps because the strength of the underdeveloped countries was very insignificant. Moreover, the U.S.A. was quite relaxed toward imports from underdeveloped countries. Thus, before the 1980s, underdeveloped countries could not only protect their domestic markets but they could also export goods easily because the markets of advanced countries were quite open.

The opinion that "the level of market opening increases with successful GATT trade negotiations" is actually true from the perspective of Europe and the United States. For example, trade negotiations among advanced countries in the early stage of GATT discussed how to adjust and lower tariffs in the principle of interest exchange, but the level of protection among the advanced countries was not high. For example, between 1973 and 1979, Tokyo Round Trade Negotiation[3] lowered tariffs among advanced countries from 7 per cent to 4.7 per cent (average). Comparatively, the tariffs of underdeveloped countries were much higher than those of advanced countries. Therefore, under pressure, underdeveloped countries had to greatly lower their tariffs.[4]

The most important changes occurred when Europe and the United States became completely conservative in politics and ideology. After 1970 it became difficult to maintain the post-World War Two world order. Keynesian economic policy, social democracy and social welfare met a bottle-neck. Earlier policies could no longer solve problems such as unemployment, stagnant productivity, financial deficits, and inflation. In this situation, neo-liberalism re-emerged. In politics, Margaret Thatcher was elected as the British Prime Minister and Ronald Reagan was elected as President of the U.S.A. Neo-classical economic theory which advocated the free market became the dominant ideology.

In the 1980s neo-liberal economic policy became popular. Under the leadership and advocacy of Thatcher and Reagan, privatization (it was deregulation in the U.S.A.), liberalism, and globalization became highly justified goals. Among advanced countries, the system of fixed exchange rates collapsed in the early part of the 1970s. After that, the advanced countries adopted the floating exchange rate, gradually relaxed capital controls, and began to develop the integration of the financial market. On the other hand, in the early part of the 1980s, underdeveloped countries were trapped in the crisis of international debts. Under the advocacy of the United States, the World Bank and IMF switched completely to neo-liberal policies. New measures formulated austerity programs for underdeveloped countries that had financial difficulties. These measures required underdeveloped countries to open their markets, implement privatization, reduce financial deficits, and social subsidies. Such reforms served as prerequisites for receiving assistance. This was the neo-liberal plan known as the "Washington Consensus."[5] However, in recent years, the "Consensus" has met with many challenges. Especially after the Asian Financial Crisis, the IMF and the World Bank faced vast problems, and they had different opinions about related policies.[6] Meanwhile, neo-liberal scholars who agreed with free trade did not necessarily agree with completely and quickly opening capital accounts.[7] Therefore, some scholars thought that the "consensus" was dying.[8]

Meanwhile, since the early part of the 1970s, productivity growth in America became stagnant. Its annual growth rate fell from 2.6 per cent on average to about 1 per cent, and the American economy experienced many problems. Even its position of economic hegemony was being challenged by Japan in the 1980s. People were surprised, and some even started to think that America might follow the footsteps of the British Empire and begin to crumble. The more important fact was that American trade deficits became larger and larger starting in the 1980s. In only a few years the United States had changed from the biggest creditor country in the world to the biggest debtor country.

Some older American industries, such as textiles, autos, and steel, felt threatened by imports and began to ask the government for assistance.[9] The U.S. government started to take measures to provide assistance. For example, it asked countries such as Japan to "automatically limit exports." America itself imposed anti-dumping duties and so forth. The most important change for America was the promotion of liberalization. It vigorously forced Japan and other new East Asian industrial countries to adjust and raise their exchange rates, as well as open their markets. The advanced countries formulated the Plaza Accord in 1985. First, the United States forced Japan to raise the value of the Japanese Yen, then forced South Korea and Taiwan to raise the values of their currencies. At the same time, the U.S. Congress passed the so-called Super 301 Act. Thus the U.S.A. started to use the trade sanctions as a weapon to make threats. It asked some countries to open specific markets, and allowed American capital to invest.[10]

During that time GATT members held the eighth round of negotiations from 1986 to 1994. Under the influence of neo-liberal ideology, Europe and the United States promoted further liberalization, and began to regulate the service industry and intellectual rights, in addition to industrial and agricultural products. The most important resolution was the decision to establish a permanent organization – the World Trade Organization (WTO) – and a mechanism that coordinates and arbitrates trade disputes. The WTO was established in 1995 and at the beginning of 2002 it had 144 members.

Although superficially the average current tariff has been reduced significantly, and non-trade barriers have been gradually reduced, this framework still has a long way to go before realizing real non-barrier free trade. For example, research and development subsidized by governments are still allowed. Because it is impossible for America to give up its subsidy of the defense industry, the European countries therefore maintain their right to subsidize their developing areas. The European countries and the United States themselves, of course, are the leaders who decide the relevant regulations. Meanwhile, each country can use anti-dumping measures to resist imports; and it is the United States and the European Union that have used the anti-dumping measures most frequently.[11]

Changes in the globalization trend

The above was a brief introduction to the transformation of the current global trade system. Under this system what level of global integration has been reached? Does the globalization trend really exist?

Generally speaking, globalization is studied from three perspectives: trade, capital outflow, and labor flow. In terms of trade, the ratio between gross value of export (or trade) and GDP is used as an index to measure the level at which each economic body participates in the world market. The global ratio between gross export and GDP has indeed increased from 7 per cent in 1950 to 19 per cent today. The amount of trade has increased by sixteenfold, but GDP has increased by only a factor of 5.5. Although the trade ratio certainly grew after World War Two, Western European countries had the ratio before 1913.[12] If we review the change in trade ratios in different historical periods, we find that the most significant changes occurred in the nineteenth century. Relatively, the growth rate of the trade ratio after World War Two was not very high.[13]

Thus, although the ratio of trade has indeed grown after World War Two, the rate of growth is not rapid. The growth rate exceeded the highest rate of the nineteenth century only recently. Meanwhile, economic boundaries between countries are still obvious. Even among neighboring countries, the level of market integration at home is much higher than the level of across-border market integration. The product prices of every country have not equalized. Nevertheless, international trade has seen significant changes. Since the ways in which underdeveloped countries have integrated into the system are different, the impact of integration is different compared with that of the past. For example, the ratio of export industrial products has risen from 42 per cent in 1983 to 66 per cent in 1997,[14] while dependency on trade (the ratio of the gross amount of trade to GNP) of underdeveloped countries has increased significantly in the recent decade, from 35 per cent in 1987 to 48 per cent in 1997.[15]

Capital flow may be divided into two types: direct foreign investment and financial capital flow. Direct foreign investment comprises 6 per cent of global investment. The capital stock of direct foreign investment now comprises 10 per cent of the gross value of global production. In 1913 this ratio was 9 per cent. In fact, during the colonial period of the nineteenth century, the amount of overseas investments of England, France, and Holland was sometimes larger than the amount that those countries invested domestically, and the ratio was larger than that of today.[16] Direct foreign investments to underdeveloped countries have increased in recent years. However, in 1997, 70 per cent of capital stock still consisted of investments among advanced countries. Investment flow to underdeveloped countries was only 30 per cent.[17]

Direct foreign investment has been closely related to the role of transnational corporations. Although direct foreign investment has focused on advanced countries, the impact on underdeveloped countries has been profound. Insofar as transnational corporations have been the owners of advanced technology, they have long served as the main leaders of global industries. Even today, this status has not been challenged by underdeveloped countries. The ratio of output value of foreign subsidiary companies of transnational corporations to the global gross product rose from 5.3 per cent in 1982 to 6.9 per cent in 1997, and the exports of those subsidiary companies have comprised 32 per cent of total global exports.[18]

In recent decades, mainly under U.S. pressure, each nation has indeed significantly relaxed limits on capital flow. Therefore, the flow of global financial capital has significantly increased. The trade of financial goods between countries has grown almost 30 per cent annually. The ratio of U.S. securities and stock trade between countries to GDP has risen from 9 per cent in 1980 to 135.5 per cent.[19]

The great increase of financial capital flow constituted the major cause of the financial crises of recent years,[20] such as the Mexican crisis in 1994 and the East Asian financial crisis in 1997. Although domestic financial problems in specific countries contributed the essential conditions that caused the crises, the frequent flow of short-term financial capital served as the primary cause of the crisis. Neo-liberal scholars who support the opening of financial markets theorized that so long as financial markets remained healthy, their opening would not become a problem. However, one of the characteristics of market systems of underdeveloped countries was that they were not fully established, and they had their own problems and did not need more risks and burdens.[21]

Although circulating financial capital has increased the instability of the entire international financial system, the international system has not formed into an integrated market. The level of domestic integration was higher than the level of international integration. The source of domestic investment came mainly from domestic deposits. Even interest rates among advanced countries did not show a trend toward equalization.[22]

In terms of labor flow, there has been no integration trend. From the seventeenth to the eighteenth centuries many Africans were sold as slaves to America. Over ten million Asian coolies were sold globally. Moreover, about sixty million Western Europeans migrated to new colonies. Immigration control in the imperial period was not popular. However, after World War Two, immigration control became routine, but in the early part of the post-war period, advanced countries imported labor from underdeveloped countries due to their lack of labor. Since the slowdown in economic growth in 1970 to today, immigration control has been strengthening. The phenomenon of labor globalization has been limited to specialists, managers, and technical personnel of transnational corporations, or the "brain flow" of underdeveloped countries to advanced countries. Although underdeveloped countries have requested in trade negotiations that advanced countries relax labor flow limits, such a possibility obviously does not exist.

Will the globalization trend go in the opposite direction?

We can see from the above discussion that trends in the globalization of trade, capital, and labor have different characteristics. But will globalization continue into the future? Answers to that question even today are different. Optimists believe that the development of globalization is inevitable. The promoters of globalization have been Europe and the United States, particularly the latter. However, because U.S. domestic politics have changed, it is a question of whether the American government will still vigorously promote globalization.

For example, the 1999 Seattle WTO Conference and the World Bank and IMF meetings attracted many demonstrators, with remarkably large demonstrations in recent years. Although the demands of the demonstrators varied, they reflected European and American concerns over the impact of globalization. Moreover, the demonstrations have affected American politics,[23] and U.S. protectionism has obviously increased.

There has been an example of this trend in history. From the end of 1913 to the dawn of World War Two, every advanced country changed the trend of nineteenth-century globalization, and started to implement protectionist policies. Some scholars claim that this might have been a reaction to globalization causing domestic inequality.[24] Are similar problems now accumulating in advanced countries, with contradictions worsening, thus fomenting future reaction to globalization? Might the United States change its political position and stop promoting globalization?

Income distribution in the U.S.A. has been worsening over the past thirty years. The income gap between skilled and unskilled workers has increased (i.e., the so-called skill premium has risen). Has this resulted from trade with underdeveloped countries? That is, do imports from underdeveloped countries cause the salaries of unskilled U.S. workers to decline?[25] American Leftist scholars, the U.S. government, and pro-union scholars, indeed advocate protectionism and demand that the WTO implement labor and environmental protection regulations. Many studies on the impact of international factors on U.S. salary differences conclude that there are certain impacts on salaries but these are not significant.[26] However, this remains a controversial issue.

Some scholars believe that the impact of globalization centers only on the skill premium. Globalization has enlarged the gap between those who have capital and skills and who are able to benefit from globalization, and those who cannot benefit from globalization. Simultaneously, under the influence of neo-liberalism, a social welfare system that could help the latter has been weakened in the past twenty to thirty years, thus making the problem more serious. Even if the reaction to globalization does not eventually happen, serious confrontation between classes will cause social problems, and the winners in the globalization process will pay the price.[27]

In general, domestic situations in advanced countries, especially in the U.S.A., will determine whether the U.S. government will promote globalization. These developments will have decisive impacts on the continuity of globalization. If the global trade system is out of order, the development of underdeveloped countries will face negative impacts.

3 The impact of globalization on the growth of underdeveloped countries

Changes in economic theories

We can see from the above discussion the changes in the international capitalist system. The leaders in the system are mainly European countries and the U.S.A. Does this mean that underdeveloped countries do not have independence in the system, and are they thus doomed to be exploited? Does this mean that it will be a good decision for underdeveloped countries to not join the system?

In the early period after World War Two, mainstream economic theories had an optimistic perspective on the economic development of underdeveloped countries. Among them, modernization scholars believed that if underdeveloped countries were given enough time they would be able to follow the steps of the advanced countries and develop. But structural theorists claimed that underdeveloped countries had structural weaknesses, and these countries would need to encourage and support private investment, as well as adopt the policy of import substitution. Around the 1970s, due to the lack of success in economic development of many underdeveloped countries, dependency theory emerged as a criticism to the modernization theory. Dependency theory was based mainly on the unsuccessful experiences of Latin American countries. The theory claimed that key problems were rooted in the relations between underdeveloped countries and advanced countries. The closer the trade and economic relations between underdeveloped countries and advanced countries, the more the underdeveloped countries were harmed in their growth and development. Whether it was trade relations or investment relations, advanced countries always benefited and underdeveloped countries always lost.

Meanwhile, neo-liberalism became very popular. Neo-liberals criticized structural theory from another perspective. They claimed that the reason why the "four little dragons" of East Asia were successful and Latin America was not was because East Asia adopted export-oriented and open-door policies, while Latin America went in the opposite direction. This, according to neo-liberals, proved that the free-market theory was correct.

The revisionist school had a different explanation for the East Asian experience. Revisionist scholars claimed that the East Asian success was due to those countries having developmental governments. In the process of economic development the government used administrative policies to intervene and support new industries, and also implemented export-oriented and import substitution policies. The international market provided not only the opportunity to engage at the economic level, but it also provided the tools by which those countries could regulate capital.[28]

Dependency theory found it difficult to explain the success of the "four little dragons" of East Asia, because those East Asian economic entities were highly dependent on exports. "Dependency" relations did not obstruct growth, but rather helped development. More importantly, in theory, it was difficult to define "dependency." Why did trade and investment have different results in different situations? How did trade and investment become the mechanisms by which the center exploited the margins? These theoretical questions are very controversial. Even among Marxist economists we find different opinions. In *Imperialism: Pioneer of Capitalism* (1980), Warren criticized dependency theory as a nationalist mythology of underdeveloped countries. In fact, in the past twenty years, dependency theory has lost popularity.

The East Asian experience proved again that underdeveloped countries must acquire the technology and experience of advanced countries. Small countries found that policies of self-sufficiency and self-reliance were not practical choices. Gerschenkron (1962) has suggested an explanation of the term "underdeveloped." Gerschenkron says that being "underdeveloped" is not only a burden, but it can also be a motivational force. The more underdeveloped a country is, the more opportunity it has to make progress, the more advanced technology it can learn. It can use the most advanced technology to industrialize by way of leap-frogging. However, this seems too optimistic when the gap between underdeveloped and advanced countries has become wider and wider in the twenty-first century.[29] Regardless, closing the door to the outside world is not a reasonable way to develop the economy.

Neo-liberalism has guided global economic development for almost twenty years. Recent debates criticize its theories and policies, and many scholars have evaluated and criticized global economic reforms in recent years. For example, on the issue of the economic transition in Eastern European countries, the revisionist school criticized the "shock therapy" plan put forward by neo-liberalism. Revisionists claim that these economies could not recover to pre-reform levels because those economic bodies depended too heavily on the free-market theory, and they neglected the fact that the market must depend on the support of many non-market systems to operate.[30] For example, international financial crises in recent years aroused many questions concerning financial opening, and instigated much criticism of the IMF.[31] Meanwhile, in the past twenty years criticism and debate have been centered on Third World economic reforms promoted by the World Bank and IMF, particularl, the impact of deflation policy on Third World growth.[32] Therefore, today, dependency theory has lost its popularity, although it emerged again when American union protectionists opposed globalization and used dependency theory to oppose the export-orientated policies of underdeveloped countries.

Today, globalization has become a noteworthy issue. Controversy surrounds world trade negotiations, particularly the demands of advanced countries (especially the U.S.A.) for implementing labor and environmental protection standards in trade regulations. Above I have shown that neo-liberalism has a positive and affirmative attitude toward globalization. In the next section I will discuss the different views of the revisionist school.

The views of the revisionist school

What is the path of growth for underdeveloped countries? Can underdeveloped countries benefit from globalization? These questions are not new, and theories addressing them are also not new, but the environment has since changed.

From the perspective of the development of advanced countries, the growth of productivity brought by the division of labor is undeniable. Adam Smith's *The Wealth of Nations* claimed that the degree of the division of labor depends on the size of the market. The bigger the market, the finer the division of labor and the more advanced the forces of production. However, Karl Marx argued that the driving force of the continuous development of the forces of production comes from capital pursuing profit and market competition. But Marx's view concerning the relation between the division of labor and the forces of production is basically the same as that of Smith.[33]

As for underdeveloped countries, whether participation in the international division of labor can develop the forces of production is still an unanswered question. Neo-liberalists believe that the answer is clear and affirmative. Dependency theorists reply in the negative. The revisionist school thinks that the answer has two sides, positive and negative aspects, under certain conditions.

Neo-liberalism claims that according to the comparative advantage, under the conditions of free trade, any underdeveloped country can find products suitable to its production and trade in the international division of labor. But the problem is that underdeveloped countries have ill-suited conditions and what underdeveloped countries find are low-value products that "fit" their production. More importantly, the theory of comparative advantage does not explain how underdeveloped countries can climb the ladder of comparative advantage under the conditions of free trade. For example, the comparative advantage of African countries may consist only of the export of mineral products or primarily agricultural products. There does not seem to be a way to board the locomotive of globalization.

The revisionist school has noted that, up until now, any country that has successfully developed a capitalist economy (perhaps except England, the pioneer of the Industrial Revolution) has experienced a stage in which the state intervened and protected young industries, and industrialization was based on domestic markets. The United States, Japan, and Germany did likewise, as did the underdeveloped countries in East Asia. There has never existed development in the context of free trade.[34]

In fact, after World War Two, the growth of underdeveloped countries has not been effective. East Asia is the only region that has been able to reduce the gap with advanced countries.[35] According to a report by the World Bank (2000: 14), over the past thirty years the per capita income of one-third of the mid-level countries fell from 12.5 per cent of the income per capita of the advanced countries to 11.4 per cent, and the ratio of one-third of the countries that are poorest fell from 3.1 per cent to 1.9 per cent. Some studies have noted that from 1870 to 1990 the difference in income per capita between the poorest and the richest countries has increased sixfold.[36] Advanced countries have basically maintained a stable growth of per capita income, and the amount of their income per capita has gradually become balanced, but the income gap between the majority of the underdeveloped countries and the advanced countries has become greater and greater.

Importantly, after World War Two, the differences in economic development among underdeveloped countries were very great. The most successful region, East Asia, used state power to intervene and support economic development. In contrast, the development trend in Latin America was not stable. This region was developed at a rate quite close to that of the advanced countries at the beginning of the twentieth century, but it has been surpassed by East Asian countries. Portions of the African continent south of the Sahara suffer in miserable conditions. From World War Two up until today, the growth rate of income per capita has been almost zero. The "four little dragons" of East Asia have been able to maintain growth. The growth rate of income per capita has been more than 5 per cent since World War Two.[37] Other so-called "second success" countries have quite a high growth rate, but the trend of growth was short-lived and unstable prior to the Asian Financial Crisis.[38]

East Asian countries have indeed adopted export-oriented policies, and with the rapid development of export they have quickly acquired production technology. But more importantly, East Asian governments have also implemented the policy of import substitution to support heavy industries and the high-tech industry. That is, East Asian states guided the strategy for industrial development, and took the initiative to promote the status of their economic bodies in the international division of labor. As Amsden (1989) has noted, the phenomenon of the state subsidizing capital exists everywhere in the world. The difference of East Asia from other regions is that its governments managed to regulate capital by the standard of international competition.

As Amsden, a revisionist, has noted, the past developmental strategy of East Asia was for local enterprises to undertake production and learning, not foreign or transnational enterprises. It was those local enterprises that had acquired advanced technology and laid the foundation for further development. In contrast, in Latin America, the main industries that implemented import-substitution policies – not export-oriented policies – continue to be controlled by transnational corporations, and governments are not able to manage the fate of the development of capitalism. This result is contrary to what supporters of the dependency theory would expect. It is not necessarily the case that trade dependency must conflict with the growth of local capital. More importantly, there must exist those industries which get the opportunity to grow and learn, and these must be local enterprises.

Of course, the lessons of the East Asian experience must be carefully explained. East Asian countries constitute the minority of underdeveloped countries, and they are comparatively small. It is impossible for them to depend on domestic markets to develop. The East Asian experience means that the cases of large countries such as mainland China, India, Indonesia, and Brazil need to be re-examined. Although East Asian countries have successfully developed capitalism or have depended on capitalism to develop productivity, they are only followers. The gap between them and the advanced countries remains wide and will not be easily reduced.

But the East Asian experience remains important for underdeveloped countries. If we can properly explain this experience, underdeveloped countries can benefit. The main lessons of the East Asian experience teach us why this region has been successful in development: States successfully guided industrial development, using export and the international competition capacity as the standard of rewards and punishments to regulate and support industries, while they protected markets and implemented export-oriented and local capital-supporting policies.

The governmental implementation of these policies was successful because East Asia had a balanced distribution of social wealth at the beginning stages, and the fruits of development could be shared as development progressed. In 1995, Campos and Root argued that the key to the East Asian success was in "making shared growth credible." That is, in industrial policy the state should grant subsidies, and allot rewards and punishments. Campos and Root (1995) argued that East Asian countries convinced people that they could share the fruits of future growth. Thus those countries were able to implement industrial policy smoothly to promote complete growth. In addition, Amsden and Wade, both revisionist scholars, also stress the benefits of even distribution of income in this economic mode. There exist many papers on the issue of the formation of developmental governments and their relations to political democracy. Because this chapter focuses on economic globalization, we cannot delve deeply into this research.[39]

The fact that East Asia was able to adopt this strategy prior to 1980 when it developed export substitution was due to Europe, and especially to the U.S.A. – which constituted the main East Asian market – being fairly open. At that time the U.S.A. was not feeling threatened by underdeveloped countries. Thus East Asia could not only protect domestic markets, but it also entered the American market. However, Europe and the U.S.A. are not as open today, and when the U.S.A. feels threatened by Japan and other East Asian countries it uses the "big stick" of super 301 to force underdeveloped countries to open their markets.[40]

Thus the international market which underdeveloped countries are now faced with differs from the one which East Asia faced then, and which is now more difficult for underdeveloped countries to join. If an underdeveloped country is forced to open its market too early by the conditions of free trade, it is not good for industrialization. In addition, it is not easy for that underdeveloped country to enter the markets of advanced countries. It will not be able to implement export-oriented policies to study foreign technology and experiences. If the WTO under the advocacy of Europe and the United States passes labor and environmental protection standards, it will be a big blow to the industrialization of underdeveloped countries.

The WTO has been established and membership is continuously increasing. Small countries feel compelled to join.[41] East Asian countries had a leeway and came prepared to join.[42] They have learned how to deal with U.S. demands and bypass WTO rules. They also hope to use the framework of the organization to resist the U.S.A.'s threat of super 301. Those underdeveloped countries that are weaker than the East Asian countries can only hope that the organization will help them to open the markets of advanced countries, and avoid the U.S.A.'s autocratic rule. The WTO was created as a system for opening markets, and, though it was designed by advanced countries, underdeveloped countries find that the WTO is better than a U.S. dictatorship. Perhaps large countries such as China and India may feel likewise.

Globalization and international competition widen the gaps between underdeveloped countries and advanced countries, and the gaps may increase further in the future. But East Asian countries with better conditions are able to use their political strength and industrial policies to guide economic growth, seize the opportunity to participate in international markets, and catch up with advanced countries. But some African countries do not have these beneficial conditions, and they cannot bear the pressures of the international markets. They have difficulty in developing their economies, and they also have to deal with famines, civil wars, and natural disasters.

In the environment of fierce competition the roles of the state do not disappear in globalization. Because of the change in the environment, the measures of the state must change. The state faces greater challenges and requirements. Therefore, if underdeveloped countries want to improve their conditions for survival, they must develop their economies on the basis of their nation states. They have no other choice.

Europe and the United States depended on capitalism and developed highly their forces of production. But the process of development over the past 200 years has never been a beautiful history. East Asian developments in recent years have illustrated the uglier aspects. Exploitation of labor, social inequity, and environmental destruction have occurred in East Asia.

But some progressive people in advanced countries have advocated anti-developmentalism because economic development destroys the environment. This is really a wrong approach. Asking underdeveloped countries to study the successes and failures of environmental protection in advanced countries, in order to use this knowledge for economic development, is very reasonable and helpful. "Not caring about anything besides development" does not accord with the long-term interests of the peoples of underdeveloped countries. However, some believe that non-development is the best way to protect the environment, and they ask underdeveloped countries not to develop in order to protect the environment. This thinking ignores unemployment and poverty in underdeveloped countries, and ignores the demand of the people who want to improve their lives, and it is really a view one finds in Europe and the United States. The various existing international treaties and negotiations handle issues such as environmental protection and global weather change quite well. Hence, why does the U.S.A. suggest adding environmental protection standards? Naturally, people suspect its intention is protectionism.[43]

4 The impact of China joining the World Trade Organization

What is the impact of China joining the WTO? How do we evaluate this event?

The impact is uncertain. First, there is no certainty about the impact of China joining the WTO. In this chapter I cannot discuss in detail the impact on the production, agricultural, and service industries. Nevertheless, I must point out that although WTO regulations have been established, how to use those regulations to protect the interests of a country have not been set out. Still, there are some actual opportunities. But how to seize these opportunities depends on the underdeveloped country's ability and will-power. For example, in the past, mainly advanced countries have used the anti-dumping policy to resist imports. However, in recent years, the number of cases that underdeveloped countries have filed is close to that which advanced countries have used (the ratio of the number of cases underdeveloped countries have filed to the number of global anti-dumping cases has increased from 20 per cent in 1987 to 50 per cent in 1997). This also means that the ability and will-power of an underdeveloped country are directly correlated with its status and interest in the international organization.

Taking the initiative to participate in making regulations

Second, besides the immediate impact, the more important issue is concerned with long-term future WTO trade negotiations and how to influence the regulation of competition. The emergence and transformation of the WTO has no doubt been guided by the advanced countries. The agenda of the next round of trade negotiations, such as negotiations on intellectual property rights and investment agreements, is clearly geared toward maintaining the interests of the transnational corporations of Europe, the U.S.A., and Japan in the markets of underdeveloped countries. The advanced countries use their large and rich markets as leverage to force underdeveloped countries to accept their demands. Individually, underdeveloped countries are neither strong nor large. It is better for each to join the WTO than to face the heavy pressure of powerful countries such as the U.S.A. Hence, WTO membership is continuously increasing. Today, more than 90 per cent of global trade is conducted under WTO regulations. Uniting the strengths of other underdeveloped countries to resist the advanced countries, and protecting individual interests, are important international responsibilities of China.

The impact of September 11, 2001

After the events of September 11, to some extent the negotiation strength of the underdeveloped countries has increased somewhat. These events made the advanced countries realize the importance of the stability of the international order, and that poverty in underdeveloped countries is a main factor of instability. If China uses its influence in the world to unite important underdeveloped countries such as India and Brazil, and strives for the interests of the underdeveloped countries in the WTO, this will benefit China, the underdeveloped countries, and the global economic order. Insofar as the WTO is guided by the interests of the advanced countries, it must be harmful to the economic development of underdeveloped countries, and it is neither advantageous to the balanced development of the world nor to world peace.

The conflict between fair competition and development

The publicly acknowledged goal is to maintain the smooth operation of the global economic system. Disorder in the economic system would certainly cause the world, especially underdeveloped areas, serious harm. To maintain the operation of the system, regulating fair competition is a reasonable and necessary measure.

Yet there exist contradictions and conflicts between short-term fair competition and long-term need for economic development in underdeveloped countries. As discussed above, due to status and situational variations between advanced countries and underdeveloped countries, fair competition is difficult to define. If underdeveloped countries want to change their unequal status and catch up with the advanced countries, they must have opportunities to implement interventionist economic policies. The goal of participation in international trade and the smooth operation of the global commercial system should be to help underdeveloped countries develop their economies. The fairness of international trade should be a means, not the goal. When underdeveloped countries strive for opportunities to implement industrial policies in the WTO, they should have perfect assurance.

The protected policy leeway

There is indeed some special treatment for developing countries in the WTO. Such regulations mainly state that underdeveloped countries can impose higher tariffs and have longer extensions. In fact, they serve merely as defensive measures for underdeveloped countries. Actually, what underdeveloped countries really need is the opportunity to implement industrial policies and the initiative to promote development in order to support local industries. East Asian countries successfully began the mechanism of economic growth after World War Two, but many policies and the opportunity to implement these policies have become forbidden by WTO regulations.

As discussed above, although new WTO regulations have limited underdeveloped countries, and most of the industrial policies that East Asian countries have used have become forbidden, this does not mean that there is no opportunity to implement industrial policies. Some leeway for policy implementation still exists, such as subsidies for development and research, or subsidies for underdeveloped areas in some countries. Advanced industries in the United States, such as the defense and pharmaceutical industries, are heavily dependent on government subsidies for their research and development. To maintain balance among the regions, the European Union also implements subsidies.

The difficulty of defining fair competition

On the one hand, the so-called regulation of fair competition of the WTO cannot cover all aspects of competition. On the other hand, these regulations have different goals based on the needs of certain powerful member countries. Thus so-called fair competition regulations are actually "fair" in limited areas. Subsidies for research and development, and subsidies for balance among regions (mentioned above) are not included in the limited areas. Hence, it is impossible to have complete fairness. However, for underdeveloped countries in disadvantaged positions it is important to understand the reality of the situation and strive for their own interests. This means that major underdeveloped countries such as China should consider the needs of underdeveloped countries as much as possible when they participate in making and revising WTO regulations.

In recent years, with changes in the rules of the game, East Asian countries have altered their policies. Policies that previously supported new industries have been revised, and have turned into subsidies for development and research, and preferential duty. With the progressive stages in economic development, policies have changed accordingly. Underdeveloped countries do not have the power of advanced countries to revise the rules of competition. Yet, insofar as these rules can never cover all contingencies, as long as underdeveloped countries strive to look for room under the current framework they can find their paths for survival and development.

The case of East Asia: foreign trade and investment policies

What foreign trade and investment policies are advantageous for the growth of underdeveloped countries? This chapter tries to use the East Asian experience as a case study to evaluate the lessons that may be learned.[44]

In the process of East Asian development, the export industries indeed became the locomotive of growth, but in fact export industries create local value and thus increased the opportunities for Taiwan's industries. That exports were subsidized goes without saying; policies also encouraged local enterprises to produce materials and parts for export. Government policies included investment in capital-intensive industries, subsidies for the development of key sectors, and use of import certificates (which has now been forbidden as a non-tariff barrier) to require export enterprises to use local products. When export enterprises imported parts that local enterprises were already producing they were required to provide reasons and proof for not using local products (when the value of imports exceeded 15 per cent or were incompatible with the quality of the product).

For example, early development in post-war Taiwan saw a rapid increase in the export of labor-intensive products such as clothes and plastic shoes. The state therefore supported petroleum and chemical industries to provide the fabric and plastic materials for the export industry, and also used the import certificate as another means of support. When notebook computers became popular, the state formulated plans to develop and produce liquid crystal displays in order to replace expensive imports, and the new industry is currently prospering. Now, under the so-called rule of "national treatment" (i.e., no discrimination against imports), such policies and measures that the East Asian countries have skillfully employed can no longer be used to benefit underdeveloped countries.

The East Asian strategy was clearly geared toward supporting local enterprises. In contrast, Latin America has generally depended on transnational or joint-venture enterprises. It is clear now which strategy is better. The benefit of supporting local enterprises does not reside in meeting nationalist sentiments in underdeveloped countries, but rather in supporting local enterprises in learning.

Is the impact of foreign enterprises on the local economy good or bad? Based on past experiences, the answer has to depend on specific situations and on how an underdeveloped country uses foreign capital. If underdeveloped countries have clear strategies for developing industry, and if foreign investment were introduced under the guidelines of these strategies, and if foreign investment were required to provide technology transfer and assist in the development of local enterprises, then foreign investment would result in beneficial impacts in the local economy. If these conditions do not exist, then the impact of foreign investment will not be beneficial.

The Taiwanese foreign investment policy has been the former. Although Taiwan welcomes foreign investment, foreign investment must submit to a process of evaluation that is not open to the public. Foreign investment has to have a high ratio of export, and it must gradually purchase more local products and provide technology transfer. These measures have had a good impact on many Taiwanese industries. The best result may be seen in the fact that when local industries prosper, foreign investment becomes unimportant.

For example, Taiwan's early electronic industry focused on assembling parts for European and American investments. It was labor-intensive and involved simple processes. Under the state's industrial policy, the local electronic industry gradually developed. Foreign electronic companies provided employment opportunities, and trained and skilled workers, and they promoted the development of related industries. After the development of the local electronic industry most of the foreign investment in cheaper labor moved out and the industry was not upgraded. This proves that upgrading an industry necessarily relies on local enterprises. For example, the Xinzhu Scientific and Industrial Zone is the cradle of Taiwan's high-tech industry. When it was established, foreign investment comprised 30 per cent of the total investment, but after the development of local industries, foreign investment fell to 3 per cent.

Most of the measures and policies that Taiwan has used to handle foreign investment have now become forbidden by new WTO regulations. A small portion of the investment regulations related to trade have not been passed by the WTO. Yet the WTO forbids measures that stipulate local shares, export ratios, and balanced foreign exchange. The U.S.A. and Europe plan to discuss the issue further in the next round of trade negotiations, and they hope to restrict underdeveloped countries from making certain requirements on the investment of transnational corporations. Transnational corporations of advanced countries have established powerful positions in the world, and underdeveloped countries can barely compete with them. It is very reasonable for underdeveloped countries to require that transnational companies provide technology transfer, increase local shares of production, and help local industries. Underdeveloped countries should resist as far as possible such restrictive agreements drafted by advanced countries.

Neo-liberal scholars find pleasure in listing cases of underdeveloped countries failing to develop their economies due to interventionist policies. Such scholars believe that intervention results in political disorder, inaccurate bureaucratic judgments, opportunities for corruption, competitive leasing conduct, and laziness caused by protectionism. Indeed, successful intervention requires high-skilled operation, and a variety of suitable conditions. Although intervention exists in East Asia, Latin America, and Africa, cases of failure outnumber cases of success. Nevertheless, it is impossible for underdeveloped countries to develop their economies without implementing interventionist policies. Yet, in order to follow the principles of free economy and the so-called regulations of fair competition, underdeveloped countries have to abandon their industrial policies. This will result in the loss of the possibility of promoting the economies of underdeveloped countries, the world becoming more unequal, and international order becoming more unstable.

In recent years many scholars have begun to study the conditions that make industrial policy successful, and they have arrived at certain insights. In general, industrial development strategy should have clear designs and goals. Subsidies must have clear standards of rewards and punishments (based on economic performance). The system should have transparency and should establish a mechanism for supervision. The state should have autonomy. Implementation of policies should have the public trust, and people should be convinced that they can share the fruits of economic development. Different countries have different situations. Underdeveloped countries must review the experiences of other countries, evaluate their own conditions, and design the system and policies that are suitable to their situations.

5 Conclusion

This chapter has reviewed current trends in globalization. It has discovered that in terms of trade and investment, global integration has indeed been progressing since the end of World War Two, but that the rate of development has been quite uneven. The boundaries of nation states are now still very clear, and the real integrated global market has not yet emerged. Even though financial capital has flowed quickly among countries in recent years, the global market has not yet taken shape.

Yet globalization is not a new phenomenon. The integration trend that existed before World War I was interrupted by wars and protectionism. After World War II, this integration trend re-emerged as the international capitalist system under the leadership of certain advanced countries, including Europe and the United States.

Indeed, the motivating force of globalization comes from the needs of capital expansion. Under the pressures of market competition, enterprises have to continuously expand and strive for more markets. New technology that can lower the costs of transportation and communication are developed due to the needs of capital expansion. The international market is further developed and market competition becomes more intensified. The systems and regulations of the global capitalist mechanism are still decided by the negotiations and struggles among nation states. National domestic policies also play decisive roles in economies, and many factors may influence or interrupt the so-called trend of globalization.

In terms of trade, the global trading volume has continuously increased since the end of World War Two, and the growth rate has been exceeding the growth rate of GNP. Therefore, dependency on trade has increased in the world. The dependency on trade of underdeveloped countries has increased greatly in the past ten years, and it has exceeded that of advanced countries. The ratio of industrial products to exports of underdeveloped countries has also increased continuously.

The relation between dependency on trade and economic growth is different from country to country. The economic development of underdeveloped countries as a whole after World War Two has not been good. The annual growth rate of income per capita in Africa is zero. In Latin America it is lower than 2 per cent. In East Europe, after the era of opening up, there has been negative growth, and this growth rate cannot recover to its original level. Only the growth rate of East Asia is close to 6 per cent, and this exceeds the growth rate of advanced countries. East Asia is the only region that has reduced the gap with advanced countries. In sum, the rich have become richer, and the poor have become poorer. Meanwhile, East Asia is a region that is highly dependent on trade.

After World War Two, when the international market order became stable, Europe and the U.S.A. started to negotiate for opening markets among themselves, and they established GATT. By then, their markets were quite open to underdeveloped countries, and there was no demand for underdeveloped countries to open their markets. Hence, East Asian countries took the opportunity to implement export-oriented policies.

In terms of capital flow, direct foreign investment has been fluctuating, and most of the investments have been flowing to advanced countries. Although capital flow to underdeveloped countries has increased in recent years, the distribution of capital has been uneven. Dependency on foreign investment was very limited during the economic development of East Asia.

In the past ten years the flow of financial capital has increased rapidly, and its growth rate has exceeded the growth rate of trade and direct investment. In the early 1970s, after the system formulated at Bretton Woods, the flow of financial capital started to cross the national borders of advanced countries. As for underdeveloped countries, after the 1980s, the U.S.A. along with the World Bank and IMF pressed underdeveloped countries continuously to lift capital control, and the underdeveloped countries started to feel the impact of this trend. International financial crises have occurred one after another in recent years because the development of the financial systems of underdeveloped countries has not been thorough and effective

During the 1970s free-market advocating neo-liberalism arose in Europe and the U.S.A., and it promoted the policies of liberalization and privatization.

Meanwhile, U.S. productivity growth became stagnant, trade deficits increased, and some traditional industries asked for protection because they felt threatened by imports from East Asia and other underdeveloped countries. The strategy of the American government was to use its superpower status to take protectionist measures at home, while making threats of overseas trade sanctions, asking other countries to implement liberalization, and requesting the opening of product and financial markets. The U.S.A., along with the World Bank and IMF, also required underdeveloped countries to promote liberalization and to implement the "Washington Consensus" policy. Simultaneously, during the eighth round of trade negotiations, the advanced countries promoted further liberalization policies, including regulations protecting U.S. and European intellectual rights. It was the resolution of the Uruguay Round that established the World Trade Organization. The organization was established in 1995.

Although underdeveloped countries do not trust the fairness of WTO trade regulations, the WTO has already been established. Underdeveloped countries need to join it with the hope that they can use WTO regulations to resist U.S. demands. The dependency on trade of underdeveloped countries has also increased in recent years.

While the U.S.A. has benefited the most from globalization, it supports adding labor and environmental protection standards to trade regulations because of the anti-globalization movement at home and because the U.S. government wants to win union votes. Some studies have noted that protectionism emerged during the interval between the World Wars because interest in globalization was not distributed evenly at home. Under the influence of neo-liberalism, social welfare was reduced, and this did not relieve social tension. Whether the American government pursues liberalization vigorously in the future will have a decisive impact on trends in globalization.

Revisionist scholars believe that from either the perspective of theory or of historical experience, a purely free market cannot bring economic development. They basically believe that the market can never be perfect. The operation of the market needs many non-market systems for support. In addition to infrastructure and hardware, market operation also requires non-market factors, such as the regulation of property rights, legal systems, social welfare, and educational systems, and so forth. The establishment of these systems requires state promotion and coordination.

If an underdeveloped country wants to catch up with advanced countries, it must use industrial policies and formulate industrial development strategies. It must support and cultivate new industries and local enterprises by means of subsidy, and it must establish a mechanism of rewards and punishments. It must acquire advanced technology as soon as possible in order to progress in the international market, thus gradually upgrading its status in the international division of labor. It must develop its economy and productivity continuously within the context of intensified competition and an increasing gap between underdeveloped and advanced countries.

If underdeveloped countries refrain from joining the international market, it will become very difficult to acquire advanced technology and difficult to cultivate production capacity, because advanced countries and their transnational corporations currently control advanced technology. It is reasonable for underdeveloped countries to participate in the international division of labor in order to acquire advanced technology and develop the production scale.

The question is: How can underdeveloped countries develop their own productivity and continue to promote their own interests while participating in the international division of labor? To achieve such goals, underdeveloped countries not only need to fulfill the role of developmental states, but they also need to join the international market. In the environment of intensified competition, it becomes more difficult, but not impossible, for underdeveloped countries to achieve such goals. The extent and way in which a country joins the international market should depend on each country's situation. In any case, there is no theoretical foundation and no practical way to refuse to join the international market.

Post-war East Asian growth serves as the model. Sensing crisis, the states in developing East Asia actively guided industrial development. On the one hand, they encouraged enterprises to join the international market in order to develop productivity and acquire technology. On the other hand, they promoted upgrading industry by means of industrial policy. Compared to the unsuccessful economic development in other underdeveloped countries, the economic growth in East Asia after World War Two has been an exception. This experience of success proves that development can occur in this way and this also supports the revisionist theories discussed above.

The post-war economic growth of both advanced and underdeveloped countries suggests to underdeveloped countries that the international capitalist system is a serious test. Many countries have failed or have come close to failure. Neither the essential assistance of advanced countries, nor neo-liberal theory and practice, was successful. Sometimes they were even harmful. In the current international situation, only underdeveloped countries can save themselves. This is the essential point this chapter aims to present.

As long as underdeveloped countries have not caught up with advanced countries, they will have needs and will require theories and policies different from those of advanced countries. Underdeveloped countries need the markets of advanced countries and the opportunity to implement policies which cultivate and support export industries and domestic enterprises. When the U.S.A. and Germany were catching up with England in the nineteenth century they benefited from this opportunity, as did the East Asian countries after World War II. But in the past twenty years, advanced countries have started to pay attention to new markets, and they have begun to reduce the opportunities of underdeveloped countries.

The original goal of establishing the WTO was to coordinate the rules and mechanisms of competition among advanced countries. However, due to the dominance of neo-liberalism and the intensification of competition among advanced countries in recent years, advanced countries have become eager to enter new markets in underdeveloped countries. Hence, advanced countries have heavily pressed underdeveloped countries to open their markets, and have forced underdeveloped countries to join the WTO. The agendas that the advanced countries want to put forward in the next round of negotiations encompass intellectual rights related to trade, policies on investment, and so forth. Obviously, these agendas do not promote the interests of underdeveloped countries; rather, they limit the opportunities for underdeveloped countries to implement their own policies.

In view of the post-September 11 situation, underdeveloped countries should unite to strive for their own interests in the WTO. They should resist negotiations on intellectual rights and investment policy that the advanced countries have promoted and they should strive to implement their own industrial policies. It is advantageous to China's interest to unite underdeveloped countries to strive for the interest of underdeveloped countries. Moreover, as a member of the international community, this has become China's responsibility.

Discussion

Amin: I want to add a point to Ms. Ch'u's speech – that is, the significance of the global movement that is now starting. I do not call it the anti-globalization movement, because they want to seek another type of globalization. Now, some different forces are joining the movement. In the West, the movement in Europe, particularly in continental Europe, is different from the one in North America. In terms of an alternate concept of globalization and the relations among social and political forces, the situations vary in Western, Central, and Southern Europe. Movements are starting to appear in developing regions such as Latin America, Central and Eastern Africa, India and South East Asian countries. They are holding meetings to discuss the issue and their differences. Unfortunately, up to now China has yet to join this movement. I think that we need to face globalization, neo-liberal globalization. We need to unite the forces that oppose neo-liberal globalization in different regions, in order to protect the different interests of these countries and regions. This is very important.

Tian Yu Cao: I think that Ch'u Wan-wen's article is extremely important. Its significance is that it enlightens us on how to redefine nationalism within the context of globalization. Because an array of nation states participates in globalization, the new theoretical issue of redefining nationalism should be addressed. This is also related to another type of globalization, as Amin has noted. It relates to many issues that can be discussed.

Notes

1 GATT (General Agreement on Tariffs and Trade), WTO (World Trade Organization).

2 Anti-globalization organizations have emerged in recent years, as may be seen in the opposition to the 1999 Seattle WTO meeting, and the large demonstrations against the annual meetings of the World Bank and IMF in Washington. These clearly illustrate social forces in the U.S.A. Some leftist scholars in the U.S.A. have also written papers against globalization (see Baker, *et al.*, 1998). The American government advocates adding labor and environmental protection standards to trade agreements to get union support. Such standards would subject certain products to trade sanction and prevent

them from entering the U.S.A. Labor standards that have been recommended by the U.S.A. require establishing and/or raising the minimum wage, limiting work hours, and forbidding child labor as well as the right to organize unions. As may be expected, underdeveloped countries have opposed these standards. See Amsden, 1999.

3 There have been eight rounds of trade negotiations up until now. The participants in the early period were few, the areas of negation limited, and the duration of negotiation short. The seventh round of negotiations was held in Tokyo. Ninety-nine countries participated. The eighth round was held in Uruguay from 1986 to 1993.

4 In the case of Taiwan, the average tariff fell from 30.8 per cent in 1984 to 9.8 per cent in 1997. The actual tariff incidence (i.e., actual tariff income divided by amount of imports) fell from 8 per cent in 1980 to 3.4 per cent in 1997. See Chen Tianzhi (1999, Figures 1 and 4).

5 Williamson (1994: 26–28) lists the Consensus.

6 See Stiglitz (1998b, 1999).

7 Those who agree with this believe that when capital pursues maximum profit without restraint it can promote the efficient use of resources, but opponents argue that the flow of short-term financial capital can bring only financial instability and harm. If a country lacks capital, it should introduce foreign long-term investment in production, not financial capital. J. Bhagwati, who vigorously advocates free trade, displays anger toward those who improperly take advantage of free trade theory to promote the free flow of capital. Bhagwati contends that there exists an elite group on Wall Street, and in the Treasury, World Bank, and IMF, who have resorted to liberalization, to promote the free flow of financial capital in order to benefit themselves. See Bhagwati (1998) and Rodrik (1998). As the World Bank has shown (2000: 37), the fluctuation of foreign investment is lower than that of financial capital.

8 Following Krugman (1995b) and Gore (2000).

9 Cline (1984) has noted that when industry imports exceed a certain market limit, domestic demand for protection will emerge.

10 Stiglitz has criticized the American government for forcing other countries to open up their markets with the excuse of reducing the bilateral trade deficit (1999: 10–11). This excuse was not only wrong, but it also caused underdeveloped countries to become suspicious of America's intentions, the benefits of liberalization, and even the fairness of the entire trade system. On the one hand, the bilateral trade deficit may not indicate the existence of trade barriers. Trade deficits mainly show the difference between deposits and investments in a country. On the other hand, liberalization should benefit underdeveloped countries, not become a form of punishment.

11 Some newly arisen countries have learned this from advanced countries. They have started to use this tool frequently. Therefore, anti-dumping cases of such countries have gradually exceeded those of advanced countries. See World Bank (2000: 60).

12 See *The Economist* (October 18, 1997); World Bank (2000).

13 See Baker *et al.* (1998, Table 2, p. 6).

14 World Bank (2000: 269).

15 World Bank (2000: 5).

16 See *The Economist* (October 18, 1997); Baker *et al.* (1998, Table 5, p. 9).

17 See UNCTAD (1998, Table 1.3, p. 5). The ratio has changed dramatically in recent years. For example, the ratio of direct foreign investment in advanced countries was 72.3 per cent in 1985, and 79.3 per cent in 1990.

18 See UNCTAD (1998, Table 1.5, p. 6).

19 See Baker *et al.* (1998, Table 6B, p. 10).

20 There are numerous papers discussing the causes of the financial crises in East Asia. See Adams *et al.* (1998), Stiglitz (1998a, 1998b), Radelet and Sachs (1999), and Nouriel Roubini's homepage on *Asian and Global Crisis*.

21 See Stiglitz (1998a, 1998b).

22 To maintain the stability of European currency, E.U. member countries have adjusted their currency policies, but the effect is as yet unknown. This was the result of political decisions, not market trends.

23 See *The Economist* (April 15, 2000): 29–30. The survey indicates that 61 per cent of Americans agree with globalization. Yet meanwhile, more people believed that the U.S. trade policy neglects the interests of American labor. They agree to adding labor and environmental protection standards to trade regulations.

24 See Williamson (1996).

25 Perhaps through the strength of unions, the wages of unskilled workers in Western European countries have not fallen as sharply as in the U.S.A. However, some believe that a high unemployment rate is the cost.

26 Cline's estimate (1997) is 20 per cent. That is to say, international factors have widened the differences among U.S. wages. This estimate is one of the higher ones. Krugman (1995a) has claimed that the amount of trade in manufactured products was very small, comprising only 2 per cent of the GDP of advanced countries. Hence it did not have a big impact.

27 See Rodrik (1997) and James (2001).

28 See Amsden's studies on South Korea (1989), and Wade's studies on Taiwan (1990).

29 Amsden (1989) has claimed that in the latter part of the twentieth century it was impossible for East Asian countries to have leap-frogged because of the wide technological gap with transnational corporations. It was only by acquiring advanced technology that East Asian countries were able to lessen the gap with advanced countries.

30 See Chang and Nolan (1995).

31 See note 18 (above).

32 See Stiglitz (1998a, 1998b).

33 Here it is impossible to discuss in detail the division of labor, and to show how technological innovation is advantageous to capital domination.

34 See Shapiro and Taylor (1990), and Singh (1994).

35 Even so, today, the income per capita in Taiwan is only 40 per cent of that in the United States.

36 Following Pritchett (1997, Table 2). The ratio of income per capita between the richest and poorest countries was 8.7 in 1870, and 45.2 in 1990. The ratio of income per capita between advanced countries and all other countries rose from 2.4 in 1870, to 4.5 in 1990.

37 See World Bank (1993: 2). From 1965 to 1990 the growth rate of income per capita in Latin America was 1.8 per cent.

38 Following Pritchett (1997: 13–14). Among 108 countries from 1960 to 1990, the growth rate of income per capita was 4 per cent for 10 per cent of those countries (most of which were from East Asia), 1 per cent for 37 per cent of the countries, less than 0.5 per cent for 26 per cent of the countries, and negative growth for 15 per cent of the countries. Clearly, the differences are quite significant.

39 As Evans (1995) has noted, states in development cooperate closely with society while maintaining their autonomy. Robinson and White (1998) have discussed the issue of the establishment of democratic states in development. They were responding to those who believe that states in development are necessarily in non-democratic countries.

40 According to Yoffie (1983), newly industrialized East Asian countries have successfully used long-term strategy to deal with short-term policy limitations imposed on their markets by European and American governments. They used short-term compromises and gained long-term benefits, thus successfully maintaining stability of the trade system and increasing trade income.

41 According to the World Bank's report (2000: 53). In 1982, 23 per cent of global exports was not within the regulations of either GATT or WTO. This number fell to 10 per cent in 1997.

42 Even underdeveloped countries such as South Korea, which had been quite strong, have suffered heavy losses during the financial crises, because their financial systems were not set up properly.
43 See Stiglitz (1999).
44 See Ch'u Wan-wen (2001).

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