to their interaction. The idea that one of them (the West) is the source of modernity and that the other (the third world) has to learn how to modernize itself through imitation is fundamentally flawed for this reason. This emphasis on the interrelated historical contexts of colonialism and capitalism and their constitutive role in the emergence of modernity makes underdevelopment theory one of the important sources of postcolonial thought. In its wake, postcolonialism, unlike globalization, is motivated by a desire not for mimesis but rather for a form of human development that is decolonized and beyond Eurocentrism.

CHAPTER 2

INDEPENDENCE OR NEOCOLONIALISM? THIRD-WORLD DEVELOPMENT IN THE TWENTIETH CENTURY

INTRODUCTION

In the previous chapter, the historical and intellectual genealogy of modernization and postcolonialism as narratives was examined. Tracing these two narratives back to the iconic figures of Adam Smith and Karl Marx it was shown that although modernization accounts for the rise of the West in terms of its individualism, free markets, and its supposedly rational and scientific outlook, postcolonialism emphasizes colonial plunder, a complex structure of underdevelopment and external political control, in explaining the decline of the East. This chapter will examine the developments from the beginning of the twentieth century until the present in the relative fortunes of the first and third worlds. The figures of Smith and Marx remain as salient as ever in the competing explanations and economic strategies attempted by various nations in their efforts to reach the exalted club of developed nations.

Britain's domination of the world economy, her underwriting of a global system of lower tariffs, an international currency system premised on the gold standard, and expanding international trade ended by the first decade of the twentieth century.[1] It had already begun to fray some years before, with the United States and Germany having caught up, if not exceeding, British industry in terms of organizational innovations and productivity. The invention of the assembly line, the increase in efficiency and productivity under new economies of scale, the impact of Taylorism in further deskilling and routinization of labor, and the transition to a society based on mass production for mass consumption represented a revolution in capitalist production. These developments, usually coalesced under the title "Fordism" after its pioneer Henry Ford the U.S. automobile manufacturer, marked a radical shift within capitalist structures of production.[2]

The United States' replacing Britain as the world's leading economy and as upholder of a new liberal global trading regime by the mid-twentieth century was a tumultuous process. It witnessed two devastating world wars and a decade-long economic depression (1929–1939) that severely affected the entire world. Although there are many aspects to this period worthy of discussion, for a work focused on the relationship between globalization and postcolonialism, the following points are crucial. The first is the decolonization of former colonies in Asia and Africa. When the dust from World War II settled, it was clear that direct control over the third world through colonialism was no longer viable. The Afro-Asian continents were afire with national liberation movements for independence in the interwar period, and the colonial powers (mainly Britain, France, Holland, and Japan, but also Germany, Italy, Belgium, Spain, and Portugal) were militarily and/or economically devastated by recession and war. India gained independence from the British in 1947, followed soon after by Indonesia from the Dutch. Korea, Manchuria (eastern China), and Formosa (Taiwan) had come out from under Japan, which also lost its briefly won colonies in much of Southeast Asia and the Pacific. China overthrew the quasi-colonial domination of her economy and polity by the West and Japan through the communist revolution of 1949. The fifteen or so years after the Chinese communist revolution could well be called the era of decolonization, as one country after another in Asia and Africa liberated itself from colonial rule. As wars in Vietnam, Algeria, Angola, Mozambique, and Palestine and civil war in South Africa, Rhodesia (now Zimbabwe), and other places showed, the process was by no means pacific or without resistance by the colonial powers. Yet the tide had turned against overt political and economic domination of Afro-Asia by alien Western governments, and decolonization became a reality.

A second critical point of the aftermath of World War II was the emergence of the New World economy under U.S. hegemony. Pegged at $35 per ounce of gold in 1944 (at the historic Bretton Woods conference in New Hampshire), the U.S. dollar replaced the British pound as the currency of choice; it offered a stable and guaranteed medium of international exchange for a world still embroiled in war. The creation of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD; better known as the World Bank) on this occasion were important steps in the consecration of a new and relatively open world economy under U.S. auspices. The IMF was established to lubricate international trade through the provision of hard-currency credit in a postwar context where most countries had no reserves of foreign exchange and could ill afford imports to rebuild their economies. The World Bank was set up with the initial purpose of providing loans and assistance to the devastated economies of Europe and Japan and reconstructing their infrastructure, and thereafter began lending to the developing world as well (its first third-world loan recipient being India in 1950). Soon after Bretton Woods, in 1948, the General Agreement on Trades and Tariffs (GATT) was established with the long-term goal of steadily whittling down barriers to international trade, such as protectionist tariffs and taxes.

Third, a significant difference between American underwriting of the new liberal order and its precursor (Britain in the late nineteenth century) is worth emphasizing. Bretton Woods occurred in the aftermath of the Great Depression of the 1930s and amid the ongoing devastation of World War II. The importance of maintaining international trade to avoid interconnected recessions across the capitalist world, as had happened in the late 1800s and recurred during the 1930s, was now self-evident. Similarly, the role of national governments in dampening the boom-and-bust cycles inherent in capitalism was recognized with unprecedented clarity. Already, during the depression, many Western countries had realized that governments had a crucial role to play: when demand fell and recession was around the corner, instead of tightening the belt as conventional economics of the previous era had recommended, now it was seen as the role of the government to stimulate the economy through expanded investments, generating employment, and using deficit financing if needed to "prime the pump." Such Keynesian policies (named after the British economist John Maynard Keynes) represented a departure from conventional liberal

economic thinking that saw little or no direct role for the state (i.e., politics) in the efficient functioning of economies, was actively hostile to the idea of inflationary state spending to stimulate the economy, and recommended tightening the belt rather than expansion of credit in times of recession. Keynesian thinking was evident in Franklin Roosevelt's New Deal in the 1930s United States and in the efforts of England and other European countries to get over their recessions as well. The Bretton Woods institutions revealed the imprimatur of Keynesian thinking at the level of global economic institutions. The long-term health of the world economy was to be restored by providing cheap credit through the World Bank and international liquidity for trade through the IMF, thereby creating demand and employment across all the Western economies. Among other things, the creation of these institutions and their loan and credit programs, which were tied to purchases from the United States, allowed the latter to gradually taper off its full-employment levels and soft land its economy in the aftermath of the frenzied, all-out production of the war years.

Fourth, Bretton Woods and the establishment of the New World Order after World War II occurred in the shadow of communism and working-class and peasant militancy throughout the world. It is easy now to forget that in most Western European countries during World War II communists played a prominent part in underground resistance to the Axis powers. After the war, they emerged with a credibility that few centrist or confessional political parties (many of whom, in Italy, France, and Germany, for example, had collaborated with the fascist movements of the interwar period) had. In the first elections after the war in a number of Western European countries, communist and socialist parties proved to be formidable contenders and gained a sizable share of the popular vote.[3] Even before the war, the depression of the 1930s had provided a tremendous fillip to socialist and communist ideology in nearly all Western countries, including the United States. The depression in the Western world contrasted with the rapid strides in industrialization, with full employment being made under central planning in the Soviet Union. During the war, the Soviet Union played a huge role in the defeat of Nazi Germany, and its de facto occupation of the eastern half of the European landmass at the end of the war brought communism to the very edge of Western Europe. The global presence of a viable alternative to the capitalist way of life was inescapable.

In the third world, the socialist or communist alternative was even more visible and militant. The success of a peasant-based revolution in China meant in effect that the communist bloc had just been enlarged by

as much as one-sixth of the world's population. The consolidation of communism (a version of) in North Korea in the early 1950s after the inconclusive Korean War and the rise of peasant-based communist insurgencies in a wide variety of theaters constituted a world in which capitalist development, far from being the sole choice, seemed locked in a battle for its very existence on a global scale. Communist insurgencies and anticapitalist leftist movements spread across parts of India (in Telengana, Bengal, Kerala, and the northeast generally); Southeast Asia (including Laos, Cambodia, Vietnam, Burma, Malaya, parts of Thailand, Indonesia, and the Philippines); and all across both Africa and Latin America. In many countries (as witnessed in Indonesia in 1965, or India during the Naxal uprising of the late 1960s and early 1970s, or Malaysia in the mid-1960s), third-world nationalist governments resorted to incredible levels of repression in order to combat these insurgencies, often with the help of Western governments and aid. The success of the Cuban revolution in 1959 and the emergence of Che Guevara as an iconic symbol of peasant-based anticapitalist ideology in Latin America in the 1960s were further indications of the battle for the soul of third-world nationalism. In Africa, communists were prominent in the struggle against French colonialism in Algeria and Morocco, in the forefront against apartheid in South Africa, against settler colonialism in Rhodesia, as well as against Lusophone colonialism in Mozambique, Angola, and other theaters. Communists and socialist parties and cells were also part of the nationalist and anticolonial movements in the Middle East, especially in Iran, Iraq, and Syria. As discussed in the next chapter, particularly in the work of Robert Young, the possibility of a socialist revolution sweeping across the third world was a palpable reality in the 1950s and 1960s, and this hope underlay much of what would come to be described as postcolonialism.

Keynesianism, the proximal presence of communist societies in Eastern Europe, the decade-long recession of the 1930s, the electoral clout of working-class parties in Western societies, and the popularity of a people-based anticapitalist alternative in many third-world countries all tempered the free-market ideology of the United States and the institutions established in 1944. One summarization of the Keynesian underpinnings of Western economies in the period 1945–1975 lists: "a state-managed *modus vivendi* between labour and capital; limited capital flows; managed trade; dependence of corporations on retained earnings for investment; strong regulation of banks and the financial sector; fine-tuning of the economy through monetary and fiscal mechanisms; and fixed exchange rates."[4]

The presence of the communist alternative and the threat it represented to market societies also explained the inordinate amount of financial assistance, covert military operations, intelligence-based destabilization, and political-ideological support provided by the United States through its foreign policy of containment in various parts of the world.[5] In Western Europe, Japan, and all across the third world, the United States stood as the bulwark of capitalism and anticommunism (which, despite U.S. rhetoric, was never the same thing as democracy). Just as British underwriting of so-called free trade relied upon gunboat diplomacy, U.S. underwriting of the postwar order relied upon a foreign policy that combined carrot and stick to keep the world safe for, in theory, democracy and freedom, but in reality capitalist trade and investment.[6] As discussed in later chapters, this history of U.S. involvement worldwide on the side of capitalism and private investment and against what was perceived as communism (but was often an effort by the recently decolonized to assert national sovereignty and ownership over their own assets) would constitute an important reason for the great degree of divergence between U.S. self-perceptions and the way in which it is viewed in the third world.

These factors constituted the background against which the newly independent countries of Afro-Asia and the formally free but U.S.-dependent Latin American countries embarked on their development in the postwar period. In the mid-twentieth century, at a theoretical level, these countries were faced with two starkly contrasting developmental models. The first was that outlined by the modernization school of thought, which was capitalist, based on private enterprise, relatively open to Western investment and imports under a free-trade model, and one that saw expansion of international trade and investment as the engine of economic growth. It saw the direct involvement of the state sector—in economic planning and in production—as, at best, a temporary phase, and one that should be rapidly left behind after a certain measure of consolidation. The second was a Soviet-inspired, centrally planned, and state-led developmental alternative, with an emphasis on import substitution, protectionist tariffs, and national self-sufficiency, especially in the domain of manufactured goods. This model was pessimistic on the importance of export growth, international competition, and foreign direct investment in the developmental process.

In reality, third-world countries followed many divergent models of economic growth, and the above contrast between the free-market model and the state-centric inward looking models is more useful as an ideal type. Many third-world countries went for a "mixed" economy: with private, capitalistic, industrial, and agrarian sectors, alongside a measure of state planning and direct participation in the economy, especially in key infrastructural industries.[7] Such departures from strict adherence to free-market strategies and keeping the state out of the economy was understood, in the context of global Keynesianism, as inevitable and perhaps necessary for balanced growth, even by the United States.[8]

The Cold War was also a quintessentially ideological battle for the minds and beliefs of those in the developing third world, and the United States and Soviet Union spent an enormous amount of resources to win them over. Given their long period of colonial domination, much of it with a selective imposition of ideas of free trade, many newly independent countries were lukewarm to the modernization school, especially given its undiluted Eurocentrism. But their need for capital, technological know-how, the inertia of preexisting patterns of colonial trade and investments, and cultural domination of third-world countries during the era of colonialism made them dependent on the West. Modernization theories were underwritten by the richest nation in the world, disseminated through textbooks and educational strategies, magazines and movies, lectures by visiting academics and intellectuals, and scholarships for third-world students to first-world universities. Such ideological emphasis on private enterprise, openness to foreign direct investments, and protection of the assets of Western multinationals was backed by military force whenever necessary. Thus, when the democratically elected Iranian Prime Minister Mohammed Mossadegh sought to nationalize the oil industry (which was dominated by a British multinational) in the early 1950s, he was overthrown in a coup engineered by the Central Intelligence Agency (CIA) in collaboration with the British. He was replaced by Shah Mohammad Reza Pahlavi, who went on to establish one of the most ruthless and repressive dictatorships of the twentieth century. The shah was a faithful ally of the United States for close to three decades thereafter, until his ouster in the Islamic revolution of 1979. The case of Iran was emblematic of U.S. foreign policy during these decades, consistently preferring authoritarian third-world regimes to democratic economic nationalists and justifying this preference on grounds of the containment of communism.

The two superpowers divided the world anew into strategic blocs of countries allied to one or the other. The United States sought to contain the Soviet Union through a series of treaties signed with countries bordering it, while the Soviet Union offered assistance (both overt and covert) to regimes sympathetic to its foreign policy goals and committed to at least the idea of state-led, if not communist, development.

For many leading third-world countries (such as Egypt, India, Indonesia, Ghana, Nigeria, Kenya, and others), economic and ideological competition between the two superpowers offered both opportunity and danger. On the one hand, they jealously guarded their hard-won sovereignty and were loath to ally too closely with either bloc. Such independence from either bloc (or nonalignment as it came to be called) allowed them the opportunity to get the best of their relations with either superpower, to further their own plans for self-reliant economic development, and to make an important ideological or symbolic statement regarding their sovereignty and status in world affairs. On the other hand, as a long list of countries literally going from Angola and Afghanistan to Vietnam and Zaire shows, the military and ideological standoff between the United States and the Soviet Union was often played out in third-world countries as proxy wars, at a severe cost to the latter.

At an aggregate level the success of the Bretton Woods institutions, as far as the Western world is concerned, was reflected in the unprecedented growth rates and expansion in trade that occurred in the three decades after the end of World War II. Overall annual growth rates of GNP in the developed Western world had been about 2.5 percent per annum in the period 1873–1913, and this fell to an average of 1.9 percent per annum in the 1913–1950 period. But after the war, it increased to a resounding 4.9 percent per annum for the 1950–1973 period for the Organization for Economic Cooperation and Development (OECD) nations. As discussed below, such growth in the developed world was matched by unsurpassed GDP growth rates as well as per capita growth rates across the developing world. Such generalized growth at the height of Fordism led Arthur Lewis, the Nobel laureate economist, to describe it as "the greatest boom" and many others to describe the period as the "American century." During this same period (1950–1973) exports of the OECD countries to one another increased at a rate of 8.6 percent per year, indicating the stunning expansion in trade under U.S. leadership of the world economy.[9]

Although the immediate aftermath of independence in most third-world countries was marked by heady optimism and the belief that self-government would soon result in generalized development for all, the reality has proven to be different. With the exception of a handful of Newly Industrializing Countries (NICs) (South Korea, Taiwan, Hong Kong, and Singapore), and in more recent years China, which have seen rates in excess of 6 percent per annum in per capita economic growth rates, most countries in the third world have grown at a much lower rate of between 2 and 3 percent per annum in per capita terms. Thus for the period 1950–1980, Lloyd Reynolds's sample of a large number of third-world countries distributed across the continents of Africa, Asia, and Latin America finds that the median GDP growth rate was a relatively healthy 4.9 percent per annum. However, medical breakthroughs, such as the advent of antibiotics in the 1930s, the worldwide distribution of preventative medicines and vaccines (through organizations such as the World Health Organization), improved neonatal care, and the political fact of self-government, resulted in improved life expectancy, reduced infant mortality rates, and generally lowered mortality rates in most third-world countries. This led to a veritable demographic explosion across Asia and Africa in the twentieth century. The total world population, which was less than a billion in 1800 and had barely increased to a little over a billion in 1850 and about 1.6 billion in 1900, now increased exponentially to 2.5 billion in 1950, 4 billion by 1980, and over 6 billion people in 2008. Since population growth rates have been low (well below 1 percent in the postwar period) among the developed nations, the vast bulk of this population increase has occurred in the third world. The median aggregate GDP growth rate of 4.9 percent per annum (1950–1980) for the third world averaged out to a median per capita growth rate of just 2.3 percent per annum. At this rate, it would take an unconscionably long time for a structural transformation of the third world into a developed area. Moreover, the gap between the first and third worlds was widening even faster as a result of this disparity in per capita growth rates.[10]

Table 2.1 summarizes Michael Todaro's findings regarding the growth in GNP per capita in the period 1966–1985 for various parts of the world. The average annual GNP per capita increase was of the order of 2.7 percent for developing countries as a whole, but within this, Africa saw only a 1.1 percent increase in GNP per capita. Moreover, the thirty-one low-income African countries actually experienced a decline in their per capita GNP of the order of 0.3 percent per annum. The picture of a diverging world is substantiated by the enormous discrepancies between the first and third worlds in terms of per capita GNP, life expectancy, infant mortality rates, literacy levels, and the physical quality of life index.

Contrasting with sub-Saharan Africa has been the sustained and substantial increases in GDP per capita of a handful of East Asian economies. South Korea (6.6 percent), Hong Kong (6.1 percent), Singapore (7.6 percent), and to a lesser extent Malaysia (4.4 percent), Thailand (4.0 percent), and Indonesia (4.8 percent) have all grown at rates that have transformed

Table 2.1. Growth in GNP Per Capita in the Period 1966–1985

	Avg. ann. GDP growth rate per capita 1966–1985 (%)	*Per capita GNP 1985 ($)*	*Life expectancy at birth (Years)*	*Infant mortality per 1,000 live births*	*Literacy (%)*	*PQLI 1985*[a]
Developed countries	2.7	10,169	74	15	99	96
Developing countries	1.7	720	61	72	61	66
Africa	1.1	683	52	111	45	49
Africa—low income[b]	−0.3	231	48	126	41	43

Source: Adapted from Michael Todaro, *Economic Development in the Third World*, 4th ed. (New York: Longman, 1989), 48–49.
[a]The Physical Quality of Life Index (PQLI) is "a composite index based on life expectancy at age one, infant mortality, and literacy." See Todaro, 60, 108–13.
[b]There were thirty-one of fifty-three African countries in this category, all of which were located in sub-Saharan Africa. Low-income countries had per capita GDPs under $470.

their economies, while Taiwan's GDP grew at 9.1 percent per annum in the period 1966–1982.[11]

The contrasting emphases of the modernization/globalization school of thought and the underdevelopment/postcolonialism model are reflected in the debate that ensued over NIC success. Initially, the success of Korea, Taiwan, Hong Kong, and Singapore, the East Asian Tigers, was thought to be proof of the veracity of the free enterprise, market-model and was touted as such by the World Bank in its analyses of East Asia. However, later research by scholars committed to a political-economy approach has produced a more nuanced understanding. For example, the works of Robert Wade, Alice Amsden, and others have shown that the Korean state has played a prominent role in the developmental surge of that country.[12] Through selective credit policies and controlling access to hard currency, it subsidized sectors seen as competitive in global markets. It was not open to foreign direct investment across the board, but judiciously combined protectionism in certain sectors and liberalization in others according to well-articulated strategies. It was draconian in terms of labor laws and re-pressed workers unions during the critical growth decades. Central min-istries coordinated research and development of private firms in ways that minimized duplication and destructive competition between them.

Perhaps most importantly, the economic success of countries like Ko-rea and Taiwan rose less from their export orientation or openness to the world economy (although this was undoubtedly a factor in making their firms globally competitive) and more toward the fact that they had enacted thoroughgoing land reforms in the 1950s that greatly diminished landless-ness and rural poverty, eliminated landlordism, and expanded the domes-tic market beyond urban enclaves. Land reforms also thwarted any rise in peasant militancy and communist ideology. The state invested heavily in areas of general concern to the population, such as primary education, health care, rural infrastructure, and women's development. It was a com-bination of all these factors (and other exogenous and fortuitous ones such as U.S. aid, since countries like Korea and Taiwan were front-line states in the struggle against global communism; their role as economic subcon-tractors for the United States in the Vietnam War; and by riding the coat-tails of a resurgent Japanese economy in the postwar period) that caused their success, and not a laissez-faire economic policy. The impressive growth rates of Korea and Taiwan have resulted in general prosperity rather than enclave growth, and this mainly on account of the prior history of land reforms and rural investments.[13] This is today seen in their low

Gini indices of inequality, in comparison with most other third-world countries.

Once again, one can discern the argument between those who would emphasize Smithian trade-centric explanations ("NIC success arose because of participation in international trade—their export orientation and liberalizing foreign investment—and keeping state interference in the economy to a minimum") versus political economists ("NIC success was more on account of judicious state planning and policies, land reforms, and investment in social capital which meant their external orientation generated widespread domestic prosperity"). The phenomenal growth rates (both gross and in per capita terms) achieved by Japan after the end of World War II, and China from the 1980s onward, did not occur exclusively on account of free-market principles and liberalization across the board either. On the contrary, in Japan, the period of U.S. occupation after the war enacted a thoroughgoing land reform, and thereafter, state ministries and bureaucracies played a key role in the developmental surge in that country.[14] Sectors (such as rice farming) remain highly protected to this day in Japan. In China, private ownership of industrial enterprises, competition, and export orientation have all been state-directed policies under the control of a single-party dictatorship that remains communist in name but not in ideology. The Chinese revolution leveled rural inequalities to a substantial degree, invested heavily in the formation of social capital, namely, primary education, health care through "barefoot doctors," women's education, and welfare, and limited population growth. To this day, China refuses to consider full convertibility of its currency or liberalization of its capital market accounts. In a similar vein, the success of India in the information technology sector in very recent years was in substantial part a product of prior decades of state-sponsored educational institutions in technology; selective subsidies, incentives, land, tax breaks, and import licenses offered to software startup firms; and a decades-long protectionist legacy that led to firms such as International Business Machines (IBM) actually leaving India in the 1970s, forcing the domestic computer industry to become self-reliant.[15] Clearly, it is not so much the liberalization of trade and investment by itself, but rather the wider sociopolitical economy in which such liberalization occurs and the critical role of the state in the timing and nature of such liberalization that are critical to success. This is analogous to the crucial point made in the previous chapter: it was not just the plunder and pillage of the New World that fueled the industrialization and modernization of European countries. It was

rather the state and societal contexts into which such wealth entered that is important. Thus, the plundered wealth was frittered away in Spain and Portugal, while it fed the Industrial Revolution in England and Holland.

In other words, the debate between the modernization/globalization/Smith model and the underdevelopment/postcolonialism/Marx model continues to the most recent events in the global economy such as explaining NIC success or the rising growth rates in China and India.

UNEQUAL GROWTH, DEBT CRISES, AND THE CONSOLIDATION OF NEOLIBERALISM

The picture of comparative GDP per capita growth rates in the postwar world outlined in Table 2.1 changed significantly in more recent decades. As Table 2.2, adapted from the work of Richard Cooper, indicates, there was a slowdown in growth rates across the developed world, but the areas hardest hit by the reversal in growth in per capita GDP were Africa, Latin America, the former Soviet Union, and Eastern Europe. In sharp contrast to Lewis's "golden era" of growth for the postwar decades, the contemporary era has seen a marked slowing down everywhere except Asia.[16]

By the early 1970s, the "American century" was already showing signs of strains, and the social structure of accumulation that had underwritten the postwar boom across the world was coming unraveled. First, profit margins all across the developed world were steadily narrowing as competition between the United States and the now-robust economies of Western Europe and Japan intensified. The rising share of the NICs in the export of manufactured goods represented a new development, as they successfully altered their economies from production of raw materials and agricultural

Table 2.2. Annual Increase in Per Capita GDP (%)

Region	*1950–1960*	*1960–1970*	*1970–1980*	*1980–1990*	*1990–2001*
USA, Canada, Australia	1.7	2.9	2.1	2.2	2
Western Europe	4.2	4	2.5	1.9	1.7
Eastern Europe	3.8	3.4	3	−0.6	0.7
Former USSR	3.3	3.5	1.5	0.7	−3.5
Latin America	2.2	2.4	3	−0.7	1.3
Asia	3.8	4.1	2.9	3.2	3.1
Africa	1.9	2.5	1.2	−0.7	0.2

Source: Richard N. Cooper, "A Half Century of Development," Paper No. 04-03, Weatherhead Center for International Affairs, Harvard University, Cambridge, MA, May 2004. www.cid.harvard.edu/cidwp/pdf/118.pdf (accessed 22 May 2008).

goods to more value-added manufactured goods higher up the commodity chain. Initially targeting specific labor-intensive sectors opened up to them by the ongoing rounds of negotiations under GATT, the NICs displaced U.S. workers in fields such as textiles, shoes, steel, shipbuilding, electrical and electronic appliances, small cars, and a number of other sectors. The response of Western capital to such diminishing profit margins within the industrialized world was predictable: on the one hand, it sought to renegotiate the social pact with labor that had characterized the three-decade-long period of growth and expansion, and, on the other, it increasingly began to relocate production and services outside the high-wage domestic economy and in the rising economies of the third world.

The late 1970s saw the first sustained assaults on the Keynesian welfare state and the power of organized labor (under Margaret Thatcher in Britain), and this was consolidated in the 1980s (especially during the presidency of Ronald Reagan in the United States and Helmut Kohl's chancellorship in Germany). In Britain, the nationalized firms and sectors were privatized, and the power of unions and the working class was decisively decimated by the Thatcher regime in a series of highly publicized confrontations. Millions of state employees were fired as a result of privatization. Meanwhile, London and the southern counties prospered greatly under the liberalized economy and especially the liberalization of capital markets and the financial sector, and the financial district surged in wealth. The midlands and northern counties (once the industrial and mining heartland of Britain) fell into a steep decline, which is still ongoing. Inequality within the country increased greatly. In the United States, similar changes were occurring, with the shift of the economic center of gravity away from the industrial Northeast and around the Great Lakes to the Southwest and Western states. In the decade of the 1980s, under Reagan and George H. W. Bush, the average family income of the top 10 percent of society increased by 16 percent, and the family income of the top 1 percent of society increased by a staggering 50 percent. At the other end, the bottom 10 percent of U.S. families lost 15 percent of their incomes (moving from an annual income of $4,113 to $3,504 over the decade). Such rising inequality was characteristic not merely of England and the United States, but rather "virtually all countries have seen inequalities increase over the past twenty years because of neoliberal policies."[17]

The power of capital to renegotiate terms with labor, strengthened by the neoliberal ideology of conservative governments across Western countries, was greatly augmented by changes in communication, information, and transportation technologies that now enabled production to be globally parceled out. The NICs, economies such as Mexico, Brazil, Thailand, Indonesia, Malaysia, China, and various export-processing zones all across the world, became favored sites for the relocation of U.S. industrial production. The wage differential between the United States and these new sites of production far outweighed any increase in costs due to transportation. Such nonunionized labor in societies with large "surplus" populations (itself a legacy of prior centuries of underdevelopment, as seen above), with lax environmental regulations, and with governments competing to attract foreign investments (by providing tax holidays, cheap access to land, power, credit, and the like) constituted the basis of a renewed cycle of accumulation, one that would soon gain the name globalization.

The most striking aspects of the period after the end of the "American century" (usually dated to 1973, which was the year of the first oil price hike by the Organization of Petroleum Exporting Countries [OPEC] and two years after the United States detached the dollar from gold and the world economy went from fixed to floating exchange rates) are (a) the worsening of an already bad situation in much of sub-Saharan Africa, (b) the rising per capita GDP growth rates in China and India, which has arguably made a dent in the extent of world poverty in recent years, (c) the negative growth rates and the deterioration across most indicators in the former Soviet Union and the ex-communist countries in the period from about 1989 until very recently, (d) the debt crisis that swept across Latin America and other parts of the third world in the 1980s, and which continues to be a major factor in their development today, (e) the East Asian meltdown of the late 1990s, its rapid export to the former Soviet Union and Latin America, and the role of the IMF and liberalization of capital markets in this crisis, and (f) rising inequalities both internationally and within the countries of the world in the era of globalization.

The key to the above developments has been a profound change in the temper of global economic ideology. If the post–World War II period marked the heyday of development economics[18] and Keynesianism within nations and multilateral institutions such as the IMF and World Bank, the period since 1980 has seen the resurgence of market ideology and ostensible hostility to statist or political interference in the functioning of the economic domain. Ironically, this period has actually seen a tremendous increase in the degree of political interference by institutions such as the IMF and its Structural Adjustment Program on the economies of third-world countries, done in the name of defending free-trade principles!

The power of institutions such as the IMF and World Bank to dictate policies to third-world governments arose in large part due to the debt crises that swept these nations in the 1980s. The genesis of such third-world debt goes back to developments in the 1970s. Following the first and second oil price hikes of 1973 and 1979, respectively, huge dollar deposits (often termed petrodollars), totaling as much as $350 billion by 1979, lay in Western banks, desperately looking for profitable investment avenues. These were augmented by what are commonly called Eurodollars: internationally held U.S. dollars in offshore bank accounts outside the purview of the U.S. government. As the premier economic power of the postwar era and as the general provider of liquidity for international trade, the United States had exported millions of dollars overseas in preceding decades. These included the dollar exports needed to finance the almost continuous balance of payments deficits run by the U.S. economy once the Western European countries, Japan, and the NICs had effectively eliminated its edge in manufacturing. Further, the export of dollars was compounded by the costs of the foreign policy of containment, the war in Vietnam being the most prominent instance. By 1979, such Eurodollars were estimated to have reached $425 billion, and like petrodollars, desperately seeking investment outlets. These were the source of the incredibly aggressive and profligate lending engaged in by private banks to third-world nations through the later half of the 1970s and the early 1980s.[19]

The loans were contracted by various third-world nations—predominantly in Latin America—on variable interest rates and based on highly optimistic forecasts regarding their earnings from exports to the first world in the near future. Many third-world countries borrowed heavily at this time, not merely because there were so many lenders eager to lend, but also because their oil import bills had suddenly quadrupled. However, the late 1970s saw the terms of trade between third-world exports (still largely dominated by minerals, agricultural goods, and other raw materials for the non-NICs) and first-world exports (manufactured goods) deteriorate sharply to the detriment of the former. Oil-exporting third-world countries, such as Venezuela and Mexico, borrowed heavily on the assumption that the prices would remain high into the future. Such forecasts and calculations went seriously awry by the early 1980s when the U.S. Federal Reserve, in a bid to contain inflation in the United States and to stave off a potential collapse in the value of the dollar, sharply raised interest rates. The tightening of money supply and the increased costs of borrowing for investment quickly plunged the United States, and soon the rest of the Western world, into a sharp recession in the early 1980s. This supply-side retreat from Keynesianism was accompanied by a larger attack on labor unions and the idea of welfare in general in the United States and in Britain, as outlined above. The rise in interest rates made third-world debts (contracted at variable rates) balloon suddenly, while the Western recession made their chances of exporting their way out of debt virtually impossible and sent the prices of primary commodities plummeting further. As the reality of one major third-world borrower after another being unable to service its debt (let alone repay the principal) came home, private banks that had engaged in the indiscriminate lending were faced with imminent collapse, leading to possible catastrophe for the world financial system as a whole.

It was in this context that the IMF in its role as a "lender of the last resort" stepped in. To put it simply, the IMF provided credit to these indebted third-world countries to enable them to service their loans from Western private banks and to continue to maintain levels of investment (in the hope that their exports would soon pick up to a West that was still mired in recession). In exchange for a bailout in a moment of crisis, these third-world countries would, in effect, be forced to put their financial houses in order. They would agree to a Structural Adjustment Program that was constructed on putative principles of sound finance, balanced budgets, and liberalization of international trade, but which represented in reality a retreat from Keynesianism and a return to previously regnant ideas of belt-tightening and contraction as a response to an economic crisis. The reasons for the debt crisis had to do with a number of factors: the floating billions of "hot money" (in the form of Euro- and petrodollars) seeking investment outlets anywhere and everywhere; the dilution of capital controls and international banking regulations in the aftermath of the fixed-rate regime of the Bretton Woods systems; a U.S. corporate and banking sector, and stock market, obsessed with showing quarterly profits and dividends rather than slower but sound investments; deregulation of the domestic U.S. banking and savings and loans sector; the growing presence of bureaucrats in the finance ministries of third-world countries who were amenable to the neoliberal logic being pushed by the World Bank, the IMF, and the U.S. Treasury Department; the collapse of nonoil primary commodity prices in the 1980s; the sharp rise in oil import bills of most third-world countries; and a host of other factors. But these were largely ignored, and blame for the debt crisis was exclusively laid on undisciplined borrowing by corrupt third-world nations. (A similar selective reading would

also prevail during analysis of the East Asian meltdown during the late 1990s, as we will soon see.)

In exchange for the bailout, these nations were instructed by the IMF (a) to eliminate "subsidies" and "wasteful" budgetary expenses on public transportation, provision of food staples especially to the urban poor, and other such instances of "profligate" spending; (b) to devalue their currencies in order to enhance their export potential, while also directing investments into sectors that favored exports; (c) to liberalize trade by removing restrictions and tariffs; (d) to privatize or sell off nationally owned public sector enterprises; (e) to be more hospitable to foreign direct investment from Western firms and multinationals; (f) to modify labor regimes to keep wages low; and (g) to strive for a balanced budget and the elimination of deficits. This package of reforms came to be called the Structural Adjustment Program of the IMF in the 1980s, and it constituted a key step in the emergence of neoliberal globalization in the 1980s.

The contrasting views of the modernization/globalization model and the underdevelopment/postcolonialism model once again stand out in analyses of the debt crises of the late 1980s. To the former, the debt crises were a result of profligate borrowing, lack of economic discipline, incomplete liberalization, state subsidies, and irrational behavior on the part of third-world countries, while the latter emphasizes the unequal power structure of international institutions and third-world governments and the continued salience of political and economic neocolonialism.

Exemplifying the underdevelopment/postcolonial approach, Cheryl Payer likens the international financial system of the early 1980s and the debt crisis that ensued to a Ponzi scheme.[20] In such a scheme each person is promised double his or her original investment so long as he or she brings a certain number of new investors into the scheme. Thus, if I were to enter with an initial investment of $100, I would immediately get $200 so long as I was able to convince another five investors to enter the scheme by paying $100 each. They would be inclined to do so, because they too would see their investments double immediately so long as they each brought in another five investors to enter the scheme. In its simplest version, a Ponzi scheme pays off the investors in round (n-1) by using the money gained from investors in the *n*th round. Theoretically, the game can go on forever even in a finite population because the same investor can play it any number of times. In reality, as the number of players needed ratchets up exponentially, most Ponzi schemes end with the last (and largest) round of investors being gypped out of their money and the organizers of the scheme disappearing with a nice bundle. The crux of such games lies in the confidence that players have in them—they continue so long as it is still available—hence they are called "con games."

Payer argues that private banks that had lent to the third-world countries could recoup their loans only by convincing a new round of lenders about the essential soundness of the loans to these nations. They were like investors in round (n-1) trying to convince a new round of investors to buy in, in order to recover their own investments. Since the name of the game is confidence, that is where the IMF comes in according to Payer. The Structural Adjustment Programs were like a certification process forced upon third-world countries by the IMF in order to shore up global confidence in them. The latter's pronouncement regarding the sincerity of the efforts of debtor nations to put their economic houses in order sent a signal to a new round of lenders, whose loans (along with those of the IMF) enabled these countries to service their debts, that is, for the prior round of lenders to recoup their investments.

To Payer, the IMF was not so much interested in the welfare of debtor nations as it was in averting the collapse of the global financial system on account of a mass default, salvaging investments of Western private banks, and using the situation as an opportunity to coerce third-world nations into the emerging neoliberal consensus about free trade as the engine of economic growth. The debtor nations were over a barrel and in no position to resist the IMF. Standing up to the latter would ensure that no lender, institutional or private, would step into the breach, ensuring the default of their loans and the collapse of their economies. In other words, for Payer if earlier centuries of so-called free trade were imposed on third-world countries via gunboat diplomacy, today it is done through ostensibly neutral international financial institutions like the IMF and the World Bank.

The 1990s saw the extension of the Structural Adjustment Programs under the IMF and World Bank auspices to the countries of the erstwhile second world (the former Soviet Union and its Eastern European allies) as they disbanded communist regimes and began to adapt to market economics. The "shock therapy" of their conversion from state-run communist societies to free-market economies has entailed a huge social cost, revealed in the plunging GDP per capita levels and indicators such as infant mortality rates, life expectancy levels, and daily caloric intake. The Structural Adjustment Programs imposed by the IMF demanded immediate and drastic cuts in welfare expenses and subsidies in societies that had had them for decades; the privatization by sale of state-run industries and

organizations (often to carpet baggers from Western nations); dismantling barriers to trade and financial flows; and other reforms in line with the World Bank–IMF package. The resultant immiserization of the former Soviet bloc and the no-holds-barred gangster-style capitalism that has come in its wake reveal a great underestimation of the difficulties of the transition from state-run socialism to free-market capitalism, and one that seemed unconcerned about the social impact of free-market dogmas.

As with many economic issues, the impact of Structural Adjustment Programs on growth and inequality is mired in controversy. Such programs aim at macroeconomic policies of governments, and one can argue that a drop in GDP growth rates in the aftermath of such a program might have been the result of many intervening variables, including the defective or incomplete implementation of the Structural Adjustment Program itself. Critics such as Cheryl Payer, Susan George, Joseph Stiglitz, and Walden Bello, have argued that an unelected international institution should not play a role that directly contravenes the national sovereignty of debtor nations, and that the policy prescriptions of the IMF have dovetailed altogether too neatly with the interests of private Western banks, the U.S. Treasury Department, and Western corporations and investors desirous of access to third-world countries and ex-socialist nations on favorable terms. They point out that IMF bailouts are equivalent to a worldwide taxpaying public bearing the costs of mistakes made by private lenders, and meanwhile there is no denying that austerity programs of the IMF disproportionately impact the poorest sections of third-world societies. Thus Cooper's data in Table 2.2 reveal that there was an annual *decrease* in per capita GDP of the order of 0.7 percent between 1980 and 1990 in both Africa and Latin America. The shock therapy administered under the neoliberal prescription coincided with an annual *decline* in GDP per capita of the order of 3.5 percent per annum in the period 1990–2001 in the former Soviet Union, one of the sharpest reversals in growth in the twentieth century. Africa's GDP per capita growth rates in the period 1990–2001 is barely discernible at 0.2 percent.

What cannot be denied is the worldwide retreat of Keynesian principles since the late 1970s and the rise of what even analysts sympathetic to the idea of liberalized world trade as an engine of economic growth, such as Joseph Stiglitz, have called "market fundamentalism." They use this term to indicate the unthinking application of ideas of free trade, irrespective of time, space, or economic sector. The architects of the rise of such market fundamentalism in recent decades in the Western world were conservative

leaders such as Reagan, Thatcher, and Kohl, while the role of the IMF and the World Bank was in exporting the "neoliberal consensus" across much of the developing and ex-socialist world, as outlined above. The spread of such a form of market fundamentalism is an inescapable reality of globalization at the present time.

One of the most dramatic instances of the application of such market fundamentalism and of the information and communications revolution at the heart of globalization to exponentially magnify its disastrous impact occurred during the Asian financial crisis. The crisis began in July 1997 with the decision of the Thai government to depart from the regime of pegged exchange rates and float its currency, the baht. The government was responding to the tremendous pressure on the baht as a result of an unsustainable policy that it had adopted in preceding years, in large part on the advice of the IMF and the World Bank. This policy was in effect a combination of fixed exchange rates (important for foreign investors concerned about currency risk), liberalized capital accounts (that is, unrestricted movement of investment capital into and out of the country), and high domestic interest rates relative to Western markets in order to attract capital and investments. For the preceding decade at least, the market fundamentalists of the IMF and the treasury branch of the U.S. government had been rigorously evangelizing for liberalization of capital market accounts, especially in the capital hungry Rising Asian Tigers, such as Thailand. The hypermobile capital of Western investment banks like Goldman Sachs and Merrill Lynch, pension funds, mutual funds, hedge funds, and private investors roamed all over the world at the touch of a computer keyboard, seeking rapid profits from small divergences in currency values, interest rates, stock prices, and the like on a global level.[21] Such funds invested heavily in emerging market economies such as Thailand, as they generally had higher rates of return than those prevalent within the developed world. Intent as they were in short-term profits rather than investing in projects with long gestation periods, such money moved into stocks, on arbitraging differences in interest rates and currency values, and in real estate speculation.[22] The fixed rate of the baht meant that it appreciated in tandem with the rising dollar in the mid-1990s, which adversely affected Thai exports. As the trade deficit ballooned and exports stagnated, the contradictory mix of policies signaled a highly overvalued baht. The problems were now compounded with hedge funds and individual investors such as George Soros betting on the imminent devaluation of the baht by converting billions of them into dollars before the fall.

With the announcement of the floating of the baht, the Thai government was in effect signaling that it could no longer sustain the contradictory set of macroeconomic policies that had made it such an attractive emerging market for Western speculative capital in the first place. Other investors and banks joined Soros and the hedge funds in offloading the currency as fast as possible, leading to the virtual elimination of the country's foreign exchange reserves as the Thai government paid up. The Thai stock market plunged as investment capital left the country as fast as it had come in, and soon all across Asia markets went into a free fall. As investors competed with one another to get out of the plummeting Asian market before it hit the ground, the crisis was rapidly exported to Russia and Latin America, especially Brazil and Mexico, where there too the countries had liberalized their capital market accounts, dismantled capital controls, removed standstill provisions or trip wires that would have kicked in to slow down the sale of stocks or currency, and eliminated taxes or penalties on short-term investors. The crisis resulted in a sharp downturn in growth rates across East and Southeast Asia as investment capital suddenly dried up on projects midway through their construction. It led to the collapse of many banks, financial houses, and small and medium-sized industries; sent unemployment levels spiraling upward; reduced the savings and assets of millions of people in countries like Thailand, Indonesia, South Korea, and Malaysia to worthless paper; and led to the overnight collapse of a real estate boom that had gone on for years prior.

Debate about the causes and means to get out of the Asian financial crisis had an eerie resemblance to earlier debates about the third-world debt crises of the 1980s (as described above). Leftist analysts such as Walden Bello, Susan George, and Cheryl Payer, and pro-capitalist supporters of liberalized international trade, such as Joseph Stiglitz and Jagdish Bhagwati, for example, targeted their ire on the indiscriminate liberalization of capital market accounts (under the tutelage of the IMF) and on the rapacious movements of speculative capital across the world by money managers and funds based in the West. Stiglitz, a proponent of liberalized trade as an engine for economic growth, lit into the IMF for its insistence on capital market liberalization in the third world and the convergence of its views with the interests of the U.S. Treasury Department and private banks and investment houses. He decried the poor quality of its research and expertise on the economies of countries it professed to advise and argued that the IMF operated out of a dogmatic attachment to theories of free trade and liberalization without taking into account country- or sector-specific details and variations. He further pointed out that the "solutions" recommended by the IMF for the Asian countries to come out of their crisis, which essentially prescribed more of the medicine that had already nearly killed them, had actually prolonged the crisis. Malaysia, which went against the IMF's explicit recommendations and instead raised barriers to the exit of mobile financial capital, refused to devalue its fixed currency, embarked on a program of expansionary state financing and investment, and imposed fines and penalties on rapid speculative financial movements and came out of the crisis in much better shape than those (such as Indonesia, Thailand, Brazil, or Russia) that towed the line of IMF orthodoxy. India and China, neither of which had liberalized their capital markets, had been relatively immune to the Asian financial crisis.

On the other hand, then U.S. Treasury Undersecretary Lawrence Summers and Michael Camdessus and Anne Krueger of the IMF, influential columnists like Thomas Friedman of the *New York Times*, the *Wall Street Journal*, and news magazines like the *Economist* rehashed familiar charges that these third-world countries had weak or corrupt financial institutions; that their banks and industrialists had made poor decisions and borrowed indiscriminately; that the Asian financial crisis was a reflection of "crony capitalism" and nepotism that disregarded sound economic principles in borrowing. They made little or no mention of the movement of giant, unregulated waves of capital across the world, based on practically no research at all, into the fundamentals of the economies they entered or exited, creating and bursting "bubbles" with serious consequences for those caught in its wake.[23] Nor did they own up to the role of the IMF in creating the conditions for the financial crises (through its insistence on liberalization of capital market accounts of borrowers) and in prolonging it (by insisting on belt-tightening and its opposition to capital controls).

When it comes to allegations of Asian crony capitalism, one wonders why the rich history and contemporary reality of robber barons, the buying of political influence through electoral donations, union-busting through goon squads, outright racism, misogyny and anti-Semitism, the revolving door between the Pentagon and the arms industry, Enron, the savings and loans scandals of the 1980s and 1990s, the ongoing crisis over hyped-up adjustable-rate subprime home mortgages sold by companies like Countrywide Finance, and many other unsavory aspects of U.S. capitalism have never led to the charge that it too is a form of crony capitalism. This does not even touch upon issues such as the influence of well-financed Political Action Committees in securing legislation in the interests

of capital in the U.S. Congress, and various state legislatures, or the fact that no one but the well heeled or corporate sponsored can even think of running for public office in the United States today. The selective memory of critics such as Krueger, Camdessus, Summers, and Friedman was breathtaking. Asian Tigers like Korea, Taiwan, and Singapore, and emerging markets such as Malaysia and Indonesia had been touted for over two decades as shining exemplars of what openness to the world economy could produce. Their export orientation, along with rising growth rates and prosperity, was lauded as proof of the success of the neoliberal model and prescribed for all other countries, especially relatively inward-looking economies like India. East Asian success had even led to pseudo-scientific theories about Confucian or Asian values, family ties, and ethnic styles of management as worthy of emulation by the West. There was certainly no talk of crony capitalism then as these countries were held up as ideal models for everyone else, including the West, to follow. Overnight many of these same economies were now described as preternaturally corrupt and in dire need of reform.

The silence about the lemming-like behavior of financial money market managers in the West, unable to see beyond their own short-term profits, only furthered the impression that the IMF was busy blaming the victim instead of owning up to its own share of the blame for the crisis. In a typical instance of selective memory, in his best-selling book *The Lexus and the Olive Tree*, Thomas Friedman celebrates the financial money market managers and hedge fund investors as the contemporary equivalent of the "invisible hand of the market"; they are the savvy, rational investors who decide which countries have their fundamentals right and which ones do not and invest accordingly.[24] One gets a very different picture about the detached rationality of these same financial analysts when one reads Jeffrey Winters's paper. Here is his description of their actions during the Asian meltdown in 1998:

> Suddenly, you receive disturbing news that Thailand is in serious trouble, and you must decide immediately what to do with your Malaysian investments. It is in this moment that the escape psychology and syndrome begins. First, you immediately wonder if the disturbing new information leaking out about Thailand applies to Malaysia as well. You think it does not, but you are not sure. Second, you must instantly begin to think strategically about how other EMFMs (Emerging Market Fund Managers [SK]) and independent investors are going to react. And third, you are fully aware, as are all the other managers, that the first ones to sell as a market turns negative will be hurt the least, and the ones in the middle and at the end will lose the most value for their portfolio—and likely to be fired from their position as an EMFM as well. In a situation of low systemic transparency, the sensible reaction will be to sell and escape. Notice that even if you used your good connections in the Malaysian government and business community to receive highly reliable information that the country is healthy and not suffering from the same problems as Thailand, you will still sell and escape. Why? Because you cannot ignore the likely behavior of all the other investors. And since they do not have access to the reliable information that you have, there is a high probability that their uncertainty will lead them to choose escape. If you hesitate while they rush to sell their shares, the market will drop rapidly, and the value of your portfolio will start to evaporate before your eyes.[25]

It is important also to realize that in many ways crony capitalism is a redundant term, as there is no other kind in existence. It is a truism that emerging markets lack strong and well-established state and financial institutions, transparency, layers of impartial and incorruptible bureaucratic insulation between state elites and economic institutions, clear guidelines regarding banking regulations, areas earmarked for investment and the movement of capital, and other aspects that are taken for granted in the West. Yet, *it is precisely such characteristics that make them "emerging markets" in the first place and offer the opportunities for super-profits to Western hedge fund managers, investment banks, and individual investors*. Whereas returns on investment are of the order of a few percentage points in Western developed markets, they can run as high as 40 and 50 percent per annum for brief spells in emerging markets because, not despite, of the lack of institutionalization.

In her searing analysis of Indonesia in the 1980s and 1990s under the Suharto regime, Anna Tsing shows the nexus between Western investment capital, corrupt state officials beginning with the executive and his family and ending with village-level mayors, and functionaries, produced a "miracle economy" with high rates of growth and huge returns on investment, alongside growing poverty, landlessness, and environmental collapse. The result was the "privatization" of national wealth and territory, the wholesale destruction of forests in Kalimantan in a breathtakingly short period of time, the destruction of the rights of indigenous peoples and poor farmers to access to what had been hitherto communal lands and forests, and the incredibly swift extinction of thousands of species of flora and fauna. Tsing's analysis emphasizes that it was precisely the weak institutions, poorly developed financial rules and regulations, unclear property regimes

(especially for the poor and the indigenous), and related characteristics that underwrote Indonesia's miracle economy and its high returns in the first place. She notes in a succinct and brilliant fashion:

> Imagine for a moment a contradiction between capital and governance. Governance requires rationalization, clarity and order. Capital, in contrast, thrives where opportunities are just emerging. The exceptional profits that allow a firm or corporate sector to get ahead are made where bureaucratic visibility is not yet firmly in place. In the deregulation zones where government is at the end of its tether, capital can operate with the hyperefficiency of theft. Capital cooperates in the spreading of governance measures that facilitate and legitimate this theft; some visibilities and rationalizations develop rapidly, while other economic standards are fluid and even purposely muddy. In the midst of contrasts between clarity and haze, discipline and free-for-all are uncannily bundled together.[26]

In sum, a contradictory set of policies (mandated by the IMF) led to the liberalization of capital accounts and removal of exchange controls in emerging markets, while requiring them to exercise tight fiscal and monetary discipline, leading to high interest rates domestically, alongside fixed exchange rates to maintain the value of their currency. This created the conditions for short-term speculative capital to enter in the form of billions of dollars seeking quick and extraordinary profits on overvalued currencies, disproportionately high interest rates, short selling on overheated stock markets, and real estate speculation. These are not aberrations in the ongoing globalization of the world but are a core component of the way in which capital revalorizes itself and the ways in which emerging markets are constructed to produce precisely such ends. However, when the bubble burst on account of the contradictions, such capital moved out of these countries just as rapidly, leaving them high and dry. Both the debt crisis of the 1980s and the Asian financial crisis of the late 1990s were results of a supply-driven excess of investment capital seeking profitable outlets in emerging markets that were hyped beyond all reason. It was precisely the lack of institutional controls and the contradictory policies that often made profit rates in such markets significantly higher than in the more established bourses and economies of the Western world. When these debt-ridden and devastated economies turned to the IMF for relief in a crisis, this was an opportunity to bring them more firmly into the ambit of neoliberal globalization.

In assessing explanations for the debt crisis or the Asian financial meltdown of the late 1990s, the difference between the modernization/

globalization model and the underdevelopment/postcolonialism model should be readily apparent. Although the former tends to blame the victims for not being adequately modern (i.e., they are corrupt, nepotistic, lack institutions, and cannot defer gratification), the latter emphasizes the historical fact of Western developed capitalist nations using the international system and its institutions to their own advantage and at the expense of the developing countries.

Today, a widely prevalent definition of a poor person is someone who is living on less than one dollar per day (U.S. dollars valued in terms of purchasing power parity [PPP]). When one looks at the world in terms of the percentage of poor people, as shown in Table 2.3, and the trends over the past three decades of globalization, one is immediately struck by the regional disparities.[27]

The sharpest reduction in the percentage and numbers of poor people has occurred in China (which dominates the "East Asia and Pacific" region in Table 2.3). In South Asia (dominated by India), while there has been an impressive reduction in the percentage of poor people, in terms of absolute numbers there are more of them than in 1981. In Latin America, since the percentage of poor people has stayed roughly the same over the past two decades, the absolute numbers have been increasing. The sharpest increases in the numbers of poor in the past quarter century have occurred in sub-Saharan Africa and in the former Soviet bloc countries. In sub-Saharan Africa, there was an increase of 100 million poor people between 1990 and 2001, while in the former East bloc countries, the numbers increased from 23 million to 93 million over the same period.

Table 2.3. Decline in Income Poverty, 1981–2001 (%)

Region	*1981*	*1984*	*1987*	*1990*	*1993*	*1996*	*1999*	*2001*
East Asia and Pacific	56.7	38.8	28.0	29.5	24.9	15.9	15.3	14.3
Europe and Central Asia	0.8	0.6	0.4	0.5	3.7	4.4	6.3	3.5
Latin America and Caribbean	10.1	12.2	11.3	11.6	11.8	9.4	10.5	9.9
Middle East and North Africa	5.1	3.8	3.2	2.3	1.6	2.0	2.7	2.4
South Asia	51.5	46.8	45.0	41.3	40.1	36.7	32.8	31.9
Sub-Saharan Africa	41.6	46.3	46.9	44.5	44.1	46.1	45.7	46.4
World	40.4	33.0	28.5	27.9	26.3	22.3	21.5	20.7

Source: World Bank report cited in "Human Development Report 2005: "International Cooperation at a Crossroads: Aid, Trade, and Security in an Unequal World," United Nations Development Program (2005), 34.

A crucial statistic from Table 2.3 is that the percentage of the poor in terms of overall population declined more sharply in the period 1981 to 1996, and since then the rate of decline has slowed considerably. Although this is to some extent an inevitable statistical effect, critics of neoliberal globalization point out that such figures encourage one to be cautious about linking globalization to reduced poverty. They do this for a number of reasons, the most important of which are the following:

1. To the extent that substantial percentage reductions in poverty often occurred in the 1980s, prior to the full impact of neoliberal globalization on India and China, it indicates that market liberalization by itself may not be the main reason for the drop.[28]
2. The strong performance of China in this regard should give pause as the country has followed a mixture of policies that departs quite dramatically from the neoliberal consensus and whose trade liberalization came after radical equalization of many aspects of Chinese society during decades of communist rule.
3. Indian growth (which in per capita terms has approached 4 percent over the past decade) has to be qualified by data that indicate regional, class, and urban-rural inequalities rising sharply and rising growth rates having little impact on unemployment in the country.
4. The areas that have borne the greatest brunt of neoliberal globalization, in terms of Structural Adjustment Programs, such as Latin America, sub-Saharan Africa, and the former East Bloc, are also the regions with the poorest performance in terms of poverty reduction.

Although the debate over poverty and neoliberal globalization in recent times is ongoing, the data are more unequivocal when it comes to global inequality in the longer term. Here, the picture of rising inequality and a growing divergence between first and third worlds over the past two centuries is inescapable. Table 2.4 summarizes two crucial sets of figures: first, GDP per capita growth rates for various parts of the world going back to 1820, and second, the x-fold increase (that is, the number of times increase) in per capita GDP rates for various parts of the world going back to that year.

Although the developed world as a whole has seen a nineteenfold increase in its GDP per capita over the past two centuries and Japan has witnessed a staggering increase of almost thirty-one-fold, the story for Africa and India is abysmal, with the rest of Asia, Latin America, and the Eastern

Table 2.4. GDP Per Capita Growth Rates and x-fold Increase Since 1820

Region	*X-fold increase*	*Annual average compound growth rates of GDP per capita growth (%)*				
	1820–2001	*1820–1913*	*1913–1950*	*1950–1973*	*1973–1980*	*1980–2001*
Developed World	19.0	1.3	1.2	3.3	1.9	1.9
Eastern Europe	8.8	1.0	0.6	3.8	2.1	0.2
Former USSR	6.7	0.8	1.8	3.3	0.8	–1.6
Latin America	8.4	0.8	1.4	2.6	2.7	0.3
Asia	6.9	0.4	0.1	3.6	2.8	2.3
China	6.0	–0.1	–0.6	2.9	3.5	5.9
India	3.7	0.3	–0.2	1.4	1.4	3.6
Africa	3.5	0.4	0.9	2.0	1.2	–0.1

Source: "Growth and Development Trends, 1960–2005," from *World Economic and Social Survey, 2006: Diverging Growth and Development*, United Nations (2006).

Europe (including the former Soviet Union) doing only marginally better. Clearly, the idea of development as something that structurally transforms a society and makes for a generalized society of self-sufficiency or affluence has passed by much of the world.

This picture of a diverging world economy is further confirmed by Table 2.5, which shows the ratio of GDP per capita in the different parts of the world relative to the developed world. With the sole exception of Japan, the rest of the countries in the world have regressed relative to the developed world over the past two centuries; in fact, in most instances,

Table 2.5. A Bifurcated World with Growing Inequality, 1820–2001

Region	*Ratio of GDP per Capita Relative to the Developed World*					
	1820	*1913*	*1950*	*1973*	*1980*	*2001*
Developed world						
Eastern Europe	0.57	0.42	0.34	0.37	0.38	0.26
Former USSR	0.57	0.37	0.45	0.45	0.42	0.20
Latin America	0.58	0.37	0.40	0.34	0.35	0.25
Asia	0.48	0.22	0.15	0.15	0.16	0.18
China	0.50	0.14	0.07	0.06	0.07	0.16
India	0.44	0.17	0.17	0.06	0.06	0.09
Japan	0.56	0.35	0.35	0.85	0.88	0.91
Africa	0.35	0.16	0.16	0.11	0.10	0.07

Source: "Growth and Development Trends, 1960–2005," from *World Economic and Social Survey, 2006: Diverging Growth and Development*, United Nations (2006).

they have gone from being about half as well-off as the developed world to being a quarter, or a fifth, as well-off. Although the average Japanese had 56 cents to every dollar owned by a resident of the Western developed world in 1820, today he has about 91 cents to that dollar. In contrast, whereas in 1820, the average African had about 35 cents to each dollar of a first-world resident, today he has as little as 7 cents to that dollar. The Indian has regressed from having 44 cents to every dollar of a first worlder in 1820 to having just 9 cents in comparison. The Latin American, who used to have 56 cents to every dollar of the Westerner, today has 25 cents, and similar figures obtain for East Europeans and Russians.

The gap between the first world and the rest has widened since 1820 and has further intensified over the past three decades; this is one of the inescapable realities of the contemporary world. Since the early nineteenth century marked the industrialization of the Western world and is often coterminous with the beginning of the modern era, what Tables 2.4 and 2.5 collectively signify is that this era has seen the inexorable polarization of the world.

Against this background, one may see the period since the end of World War II as marked by the continuous tussle between those wedded to the idea of the market as the best and only arbiter of economic decisions that affects the peoples of the world and those who see a prominent role for humans, states, and politics in such "economic" decision making. If the period from the end of World War II to about 1973 saw the pendulum swing closer to the Keynesian end of the spectrum (one that saw politics and the state as having a legitimate and ethical role in limiting the often destructive effects of free-market capitalism), since then it has swung over to the market end. When Gordon Gekko, the ruthless finance capitalist in the Hollywood movie *Wall Street* (1987) tells shareholders that "greed . . . is good," he was reflecting a zeitgeist in which a democratically elected prime minister of one of the world's leading countries, Margaret Thatcher, argued that the supposedly ethical commitment to equality often arose from "an undistinguished combination of envy and bourgeois guilt."[29] She went on to observe that "It is our job to glory in inequality and see that talents and abilities are given vent and expression for the benefit of all."[30] Inequality soared in Britain and Reagan's United States, and across the world, and societies ostensibly built on ideas of communal equality and cooperation, namely, the Soviet Union and other centrally planned societies collapsed, adding to the seemingly irresistible sway of market economics. As one society after another (the erstwhile Soviet Union and the East bloc, China,

India, Vietnam, Sri Lanka, Nicaragua, and others) joined in the dismantling of state controls and the liberalizing of their economies, even a figure who epitomized resistance and political agency like Nelson Mandela was moved to remark in July 1998 that "Globalization is a phenomenon that we cannot deny. All we can do is accept it."[31] The pessimism of the organized left in the developed world was summarized by Perry Anderson, Marxist intellectual, historian, and longtime editor of its premier journal the *New Left Review*, who observed that "neoliberalism as a set of principles rules undivided across the globe: the most successful ideology in world history."[32]

As the decade-long resistance to neoliberal globalization inaugurated by the Seattle protests against the World Trade Organization Ministerial Conference in November 1998 has shown, the pessimism of Mandela and Anderson is perhaps misplaced. The theoretical and ideological underpinnings of such movements resistant to neoliberal globalization are truly diverse, and their members vary greatly, ranging from ecological groups in first- and third-world countries, to unionized workers, anarchists, migrant laborers in different parts of the world, economic nationalists of various hues, indigenous peoples, to those committed to fair trade as distinct from free trade, the antisweatshop movement, reformers of international institutions such as the IMF, the World Bank, and the World Trading Organization, farmers, and a wide variety of others. At first glance, there seems to be little in common to these various movements that oppose some or all aspects of neoliberal globalization. Yet, one could argue, as will be presented later in this book, there is a common platform underlying them, a refusal to allow the "logic of the economy," or of market fundamentalism, to be the final arbiter of matters pertaining to the well-being of people and the environment in different parts of the world. The chapters that follow will examine the relationship between such a postcolonial perspective as apposed to the relations between politics and economics, as well as the ways in which that perspective has enabled resistance to, and has itself been enabled by, neoliberal globalization.