Whose China Model is it anyway?  
The contentious search for consensus

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ABSTRACT

Has a Beijing Consensus emerged to challenge the Washington Consensus? If so, what is the essence of this alternative consensus and why does it matter? This article argues that efforts at a definitive description of a Chinese model of state–economy relations, especially as it compares to the original policy recommendations of the Washington Consensus, have and will continue to prove unsatisfying. This is because any such comparative exercise is inherently political and prone to various angles of critique. Instead, this article argues that it is precisely because of the politics of such comparison that competing and often contradictory portrayals of a Beijing Consensus or China Model have taken on importance inside and outside of China. This article further argues that western accounts of a Beijing Consensus or China Model alternative to the Washington Consensus too often ignore or minimize the contentious debates within China about how best to describe Chinese economic governance. This study, in contrast, seeks to understand China’s relationship to the Washington Consensus by exploring how concepts like the Beijing Consensus or China Model are deployed and contested outside and inside of China. The article concludes by offering suggestions for further research on the domestic Chinese and international policy implications of debates about the Beijing Consensus.

KEYWORDS

BRICs; Washington Consensus; Beijing Consensus; New Left; CCP; Chinese Communist Party; neoliberal.

The ‘Beijing Consensus’ is a concept that draws its power from its key position in a whole system of interacting concepts: as the polar opposite of the Washington Consensus, the term expresses compactly the collapse of the Washington Consensus and the success of the Chinese growth experience and the rising role of China in the world today. (Naughton, 2010: 438)
Has a Beijing Consensus emerged to challenge the Washington Consensus? If so, what is the essence of this alternative consensus? In one sense, a Beijing Consensus most obviously has emerged; a quick Google search quickly turns up hundreds of hits to related book, articles, lectures and blog posts. However, for each such publication or presentation the Beijing Consensus might be portrayed altogether differently. Therefore, to say that the idea or concept of a Beijing Consensus has emerged to challenge the Washington Consensus is not at all the same as saying that agreement exists about what the Beijing Consensus actually is. The quote above aptly demonstrates the inherent difficulty of getting at the ‘truth’ of what the Beijing Consensus is or is not and how it does or does not stand as a viable alternative to the Washington Consensus. This article instead asks a separate, but related question: what is the relationship between China and the Washington Consensus and why does it matter? This question allows for a more focused analysis of the importance of political contestation embedded in competing understandings of the Washington Consensus and Chinese alternatives like the Beijing Consensus or ‘China Model’.

One way to understand the relationship between China and the Washington Consensus is to measure China’s economic development policies against John Williamson’s original 10 Washington Consensus policy recommendations. The first section of this article demonstrates that even against a fixed target of the original Washington Consensus policy list such a comparison quickly runs into the difficulty of answering the following: which Chinese policies at which points in time in which sectors constitute a valid comparison? Even if there were agreement on what constitutes a valid comparison, there would (and do) remain significant disagreements among experts on the resulting conclusions. The problem with any search for a definitive answer to how China ‘really’ lines up in comparison to the original 10 Washington Consensus policy recommendations is that no matter how expert the expert who answers this question, his or her answers are inevitably tied into larger political debates and therefore open to further critique and disagreement. This is not to say that some answers would not be closer to the mark than others, but only to underscore the larger political issues at stake in what seems a rather straightforward comparison.

In fact, the politics of comparison quickly come to the fore when exploring the relationship between China and the Washington Consensus. One key reason is that the Washington Consensus itself became a moving target because of its controversial policy and ideological baggage (see Babb, this issue). But comparing China’s developmental experience with the Washington Consensus is inherently political in other important ways as well. Because for as uninspiring as some discussions of state–economy typologies can be, at heart they are about assessing what forms of state governance of the economy are successful and therefore legitimate and which ones are not and should be replaced by a superior
alternative. Therefore defining China’s particular type of state–economy relations, both in terms of its own details and how it lines up in comparison with other types, has important political implications. As Robert Gilpin has stated, ‘dominant economies not only influence the world economy, but they are also archetypes for many other economies’ (Gilpin, 2001: 149). This reminds us that defining a country’s state–economy relations as being a certain type also implies potential lessons for other countries (positive or negative). Gilpin’s stress on ‘dominant economies’ also underscores how, fair or not, describing some countries’ state–economy relations as corresponding to or challenging a certain type takes on more political importance than for some other countries.

Therefore it should come as no surprise that what might seem like a simple exercise in comparison between China and the Washington Consensus has come to take on such importance. It is precisely because the comparison is between an American (or even Western) type or model of state–economy relations and a purported Chinese alternative that so much is at stake. China’s increasing impact on global economic and political affairs, and the relative speed with which it has achieved this status, is both interesting and important for many beyond China’s borders. In addition, for many academics, politicians, journalists and businesspeople around the world, having an influential description of the relationship between the Chinese state and economy can make careers as well as enhance wealth and power. The same could not be said for most other countries. At the same time, the emergence of any truly new ‘consensus’ about the appropriate relationship between states and markets has important implications for structuring not only China’s domestic political economy but also for trade and finance at the international level. Thus any description of how China’s type of state–economy relations compares to America’s, especially if it implies a viable alternative (whether healthy or harmful), is deeply political.

But if such typological comparison is deeply political, and politically relevant for all of those analyzing China from the outside, it should be apparent that it is all the more important for the government and people of China themselves. All too often accounts of a Beijing Consensus or China Model alternative to the Washington Consensus ignore or minimize the contentious debates within China about how best to describe Chinese economic governance. Such debates are equally or more political than the Washington Consensus v Beijing Consensus typologizing that takes place outside of China. This article therefore describes and analyzes how the Chinese Communist Party (CCP), as well as competing groups of Chinese New Left and liberal public intellectuals, debate and defend various interpretations of the Washington Consensus and its possible Chinese alternatives. Within China, what is at stake in these debates is nothing less than the power to influence how the country’s leaders and people think
about what the Chinese government’s relationship to the economy has been, what it is today and what it should be in the future.

With so much at stake, both inside and outside of China, it is no wonder that we see the contentious range of opinion and disagreement about what a Beijing Consensus or China Model alternative to the Washington Consensus might be and what such an alternative might mean for China and the world. At the same time, all such efforts at definitively describing and assessing a Chinese type of state–economy relations inevitably runs into the inherent complexity of China itself. Not only is China changing quickly, but its sheer geographical and population size defy simple descriptions. This means that ‘China’ can be and often is a mix of contradictory and confusing realities. Thus efforts to have the last say on defining the relationship between state and economy in China, whether as an alternative to the Washington Consensus or not, will inherently lead to frustration and contention. This study, in contrast, takes as its starting point that any understanding of concepts like the Washington Consensus, Beijing Consensus or China Model are inherently social and political. What follows is an effort to understand China’s relationship to the Washington Consensus by exploring how such concepts are deployed and contested outside and inside of China.

This article is arranged as follows. I first present a point-by-point comparison of the original 10 Washington Consensus policy recommendations and China’s own developmental experience. I then explain why such an approach can and does lead to more questions than answers by explaining that both the Washington Consensus and its posited Chinese alternatives are more than mere lists of policies but are also part of contested ideal types. Next I explain how observers outside of China, mostly academics, journalists or businesspeople in the United States and Europe writing in English, have offered competing explanations of a Beijing Consensus alternative to the Washington Consensus. Finally, shining the spotlight on related debates within China, I turn to official CCP as well as New Left and liberal discussions about the Washington Consensus, ‘neoliberalism’ and possible variations on a China Model alternative.

CHINA AND THE WASHINGTON CONSENSUS: FRUSTRATING COMPARISONS

In order to answer how the BRICs in general and China in particular have relied upon, transformed or rejected the Washington Consensus, a common-sense and seemingly straightforward first step is to line up John Williamson’s original list of Washington Consensus tenets and compare those with China’s own economic policies (Williamson, 2008). Indeed, this approach has been adopted by some American and Chinese scholars in
their evaluations of whether or not China represents a rejection or alternative to the Washington Consensus through a ‘Beijing Consensus’ or ‘China Model’. Some such comparisons have found, contrary to conventional wisdom, that in fact since the outset of China’s reform period in the late 1970s the country’s economic development policies have largely conformed to the original core tenets of the Washington Consensus.1

For example, American political scientist Scott Kennedy (2010) and Chinese economist Yao Yang (2010b) both argue that a thumbnail comparison shows little Chinese divergence from Williamson’s original 10 points. Both agree that China has maintained relative fiscal discipline through tax base expansion and that public expenditure has been reoriented away from ‘non-merit subsidies toward public goods’ like infrastructure (Kennedy, 2010; 470). Both Kennedy and Yao also concur that China has embraced international trade and foreign direct investment while maintaining a competitive exchange rate that has underpinned ‘the export-led growth model [that] was adopted as a national development strategy in the mid 1980s’ (Yao, 2010b: 42). Finally, while pointing to certain exceptions and obstacles, both scholars agree that China has moved steadily to deregulate prices and ease market entry and exit barriers, to enhance property rights, and to privatize state-owned enterprises (Kennedy, 2010: 470; Yao, 2010b: 42–3).2

It is only interest rate liberalization, which Yao argues is indicative of laggard Chinese financial sector reform in general, that stands out as the one glaring exception to a general Chinese correspondence to the original list of Washington Consensus policies. However, even scholars like Kennedy and Yao, who make a strong case for a high degree of overlap between the original tenets of the Washington Consensus and China’s overall reform trajectory, are quick to note that such a general listing of points of agreement is less than fully satisfying. Immediately after completing his China–Washington Consensus comparison Kennedy admits that ‘Despite these areas of overlap, it is entirely reasonable to see that China’s behavior has not approached the Washington Consensus ideal’ (Kennedy, 2010: 470). Below I return to the importance of how a seemingly straightforward checklist can morph into a politically charged ideal type. But for now it is enough to note that this kind of point-by-point comparison, which indicates a high degree of overlap between the original tenets of the Washington Consensus and the general trajectory of China’s developmental experience over the last 30-plus years, can leave even its own authors unsatisfied.3

Indeed, if a general checklist Washington Consensus–China comparison demonstrates a high degree of correspondence, then a more fine-grained approach to this type of comparison quickly leads to a range of qualifications and refutations. Simply asking ‘which China are we talking about?’
instantly complicates the high degree of overlap between the original Washington Consensus policies and China’s developmental experiences. For example, each of Williamson’s original 10 points can be approached by making temporal and/or sectoral distinctions and comparisons. Just looking at the overlap described by Kennedy and Yao leaves the reader with the overall impression that the general direction of reform in China over time has been toward a closer fit to the individual Washington Consensus policy recommendations. However, along both of these vectors we can find contrary, or at least complicating, evidence and examples. Any exhaustive effort to fully enumerate possible points of Chinese deviation from the original Washington Consensus policy recommendations is beyond the scope, and indeed purpose, of this study but here I provide a few illustrative examples.

Temporally, and of obvious but maybe too easily overlooked importance, China began its reforms before there was such a thing as a Washington Consensus. China’s background conditions, such as its potential market size and its huge but underemployed rural workforce, are key for understanding the country’s reforms and patterns of economic development since the initiation of ‘Reform and Opening’ upon Mao’s death. Moreover, the political, economic and ideological forces at play in bringing about China’s reforms had an internal logic that was quite separate from the Latin American experiences that formed the basis for Williamson’s original 10 points. But during the reform era itself there have been temporal discontinuities that belie a unidirectional momentum. For example, in the areas of rural agricultural and industrial reform or financial reform, recent studies have noted that strong momentum in the direction of Washington Consensus policies during earlier periods of reform has dissipated or collapsed. MIT political economist Huang Yasheng thus enjoins us to remember that temporally ‘Chinese performance has been heterogeneous rather than homogenous’ (Huang, 2011: 11).

Sectoral distinctions are also open to this kind of scrutiny. The most prominent example of a sectoral deviation from the original baseline Washington Consensus policies is evident in China’s ‘strategic’ or ‘life-line’ industries. In sectors like finance, telecommunications, civil aviation, petroleum, and electricity the Chinese government has gone through repeated rounds of restructuring. However, the end result has been limited competition among a handful of state-owned firms that the government hopes to see become ‘national champions’. Underlying these strategic sectoral policies have been China’s much-debated fixed exchange rate and capital controls policies. And the list of policy deviations from the Washington Consensus ideal could go on. But whether ‘there are . . . many Chinese economies’ (Pearson, 2007: 719) or just ‘two distinct economies . . . the domestic-oriented state-owned economy and the export-oriented private
economy’ (Walter and Fraser, 2011: 22), the variation is significant enough so as to render a point-by-point comparison with the original Washington Consensus open to multiple, strongly-contested interpretations. 8

This basic exercise in comparing the original points of the Washington Consensus to China’s own developmental experience illustrates how even against a stationary Washington Consensus target, such fine-grained analysis does not necessarily lead to a satisfyingly clear result. This brings us back to Kennedy’s concern that despite his finding a general correspondence between the original Washington Consensus and China’s overall story of reform, China still deviates from the Washington Consensus ideal-type. In fact, such detailed comparison can lead to important insights. However, only once we realize that the Washington Consensus itself is more than just the sum of its parts, and more of a moving than a stationary target, can we begin to understand the interest and controversy surrounding a fully formed Chinese alternative to the Washington Consensus. Thus seemingly contradictory understandings of how China compares to the Washington Consensus can and do co-exist and vie for acceptance as the best way to understand China’s state–economy relationship.

In order to better understand what is at stake in the contention among these visions of a Chinese alternative to the Washington Consensus, it is first necessary to underscore that the Washington Consensus itself has transformed from a list of specific policy recommendations to become associated with a stigmatized ‘neoliberal’ ideology. The specifics of exactly how this transformation happened are well covered by other contributions to this volume. Here it suffices to note that over the course of the 1990s and early 2000s, the original set of 10 discrete Washington Consensus policy recommendations became negatively associated with American economic and political hegemony in general and more specifically with a pejorative ‘neoliberal’ ideology. 9 So it is against this backdrop that we must understand how a concept like the Beijing Consensus has come to offer a possible alternative to the Washington Consensus.

THE BEIJING CONSENSUS: SINOMANIA VS. SINOPHOBIA

What follows is a two-part discussion of exactly how these debates about China and the Washington Consensus have played out in discussions inside and outside of China. In this first part I focus on how the idea of the Beijing Consensus has been understood and debated outside of China. By ‘outside of China’ I primarily point to discussions in English among academics, journalists and businesspeople mostly from the United States and Europe. 10 I alternately refer to these commentators as EuroAmerican or Western. In the second and concluding section I discuss debates within China about how to understand or critique the Washington Consensus.
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and a ‘China Model’ alternative. By ‘within China’ I point to official CCP critiques of the Washington Consensus and debate among Chinese public intellectuals from opposing New Left and liberal camps. Most, but not all, of these discussions take place in Chinese and among those living in mainland or greater China (Hong Kong in particular). What emerges from these debates inside and outside of China is anything but consensus.

The Beijing Consensus: cheerleaders

The original concept of a Beijing Consensus was introduced not by a Chinese scholar or official, but by Joshua Cooper Ramo, an American who was a Time magazine editor and then went on to become managing director of Kissinger Associates. In 2004, while affiliated with Tsinghua University in Beijing, Ramo published a monograph entitled The Beijing Consensus for the British Foreign Policy Centre. Early in the monograph Ramo states:

[The Beijing Consensus] replaces the widely-discredited Washington Consensus, an economic theory made famous in the 1990s for its prescriptive, Washington-knows-best approach to telling other nations how to run themselves. The Washington Consensus was a hallmark of end-of-history arrogance; it left a trail of destroyed economies and bad feelings around the globe. (Ramo, 2004: 4)

For Ramo, the Beijing Consensus thus stands as a fully-formed, superior alternative to the Washington Consensus. In practice, Ramo’s Beijing Consensus functions at both the level of China’s domestic development and also at the international level as indicated by the country’s novel approach to international affairs. Domestically, Ramo claims that China’s development has been based on (a) innovation, and (b) a balance between sustainable economic growth and equality (Ramo, 2004: 12). At the international level, not only does Ramo claim that ‘China’s emerging power is based on the example of their own model’ (Ramo, 2004: 38), but he also emphasizes that China’s foreign policy of self-determination and conflict avoidance offers a clear and superior alternative to American hegemony (Ramo, 2004: 39).

Much of the response to Ramo’s original formulation of the Beijing Consensus, especially among Western economists and political scientists who have specifically addressed each of Ramo’s main claims, has been scathing. Both Scott Kennedy (2010) and Barry Naughton (2010) find little connection between Ramo’s claims and China’s developmental experience. Kennedy says that ‘as a piece of analysis, [The Beijing Consensus] is relatively incoherent and largely inaccurate’ (Kennedy, 2010: 467). Kennedy then refutes Ramo’s core claims point-by-point: (1) China continues to struggle with economic innovation; (2) inequality has risen dramatically; and (3) even if China’s global influence has risen, it is not at all obvious that this is based
on a clear and unique development model represented by a Beijing Consensus (Kennedy, 2010: 469–73). In turn, Naughton scathingly describes Ramo’s monograph as ‘a Fauvist canvas of bright smears of description that holds together only because the artist is willing to abandon verisimilitude’ (Naughton, 2010: 440).

Yet despite such pointed critiques, Ramo’s Beijing Consensus concept has tapped into the mix of excitement and anxiety inspired by China’s booming economy and its rapidly expanding global economic and political influence. In particular, in response to the financial crisis there is a heightened receptivity to or at least curiosity about the possibility that China is ascendant and America in decline. Titles of books like Martin Jacques’ 2009 tome When China Rules the World: The End of the Western World and the Birth of a New Global Order build and expand on Ramo’s claim that a rising China offers a clear alternative to Western (read American) economic and political dominance. These arguments point to China’s culture and history, its very ‘civilization’, as superior to and increasingly more appealing globally than a liberal Western modernity.

One highly critical review of Jacques’ book pronounces it as an example of an ‘unabashed exercise in boosterism’ that has a very shallow grounding in contemporary Chinese social and political realities (Anderson, 2010: 4). However, this simply highlights that the appeal to some readers of such portrayals may lie somewhere beyond the veracity of the authors’ particular claims.12 That is, no matter how careful point-by-point refutations of Ramo’s The Beijing Consensus or Jacques’ When China Rules the World might be, such works sell books and elicit sound-bites from Western politicians, whether supportive or critical.13 Readers outside of China may love, or love to hate, the China that emerges from such books, but part of the appeal comes from a China that is portrayed as the antithesis of such ideas as the ‘West’, ‘Neoliberalism’, or ‘The Washington Consensus’. The opening quote from Naughton captures nicely the insight that much of the appeal of the idea of a Beijing Consensus lies not necessarily in the closeness of its fit with actual conditions in China, but instead in its open-ended, oppositional nature. On the other hand, claims about an ascendant Beijing Consensus, seen as part of a recovered Chinese civilizational greatness with rising global appeal, might also play well to some Party leaders and intellectuals in China, but as I explain below, are also strongly opposed by others.

The Beijing Consensus: the challenges of illiberal state capitalism

As part of this recent wave of what Perry Anderson has called ‘Sinomania’ (Anderson, 2010), the idea of a Beijing Consensus has clearly struck a nerve for boosters as well as critics of China’s development model. It is to this critical backlash among EuroAmerican commentators that I now
turn. If *The Beijing Consensus* and other works of breathless praise for a unique and transcendent Chinese development model have sold books, created sound bites for politicians and presumably greased the wheels of commerce for certain foreign business people in China, it has also been matched by those who see the Beijing Consensus as a threat either to the global community or to China’s own continued economic growth. These critical approaches have in common that they see China, and therefore the Beijing Consensus, as a model of ‘state capitalism’ that is clearly distinct from Western democratic capitalism.

However, such critiques of the Beijing Consensus differ from each other in their emphasis on the economic versus the ideological challenges posed by the Chinese model. The first approach emphasizes the ways in which Chinese state capitalism approximates the developmental state or ‘mercantilist’ developmental model adopted by other East Asian countries like Japan or Korea. A second approach that is also critical of the Beijing Consensus similarly points to China’s state capitalist development model but stresses the illiberal ideological impact China increasingly has on the developing (and possibly also the developed) world.

For many EuroAmerican observers, in particular Western economists attempting to explain the nature or direction of China’s economic growth, China’s developmental model is not unique but instead looks very similar to the one adopted by other East Asian countries. As Michael Pettis, a China-based finance specialist, has noted, ‘There is nothing especially Chinese about the Chinese development model. It is mostly a souped-up version of the Asian development model’ (Pettis, 2010b). In this perspective, the defining characteristics of China’s development model, shared in common with Japan and South Korea in particular, are a focus on industrial strategy with the aim of creating ‘national champion industries’. This industrial strategy relies heavily on state investment, credit and currency policies to provide select Chinese firms protection from international competition and to promote ‘market-share grab’ (Anderson, 2009: 28) as well as outbound investment activities (Anderson, 2006; Pettis, 2010a; Huang, 2010).

Some who view China as following in the developmental state footsteps of its East Asian neighbors believe that the model, based as it is on high levels of state investment, will reach a limit as it did in Japan. They argue that as other countries have before, China will confront decreasing returns on its state-led investment policies and this, tied to growing asset and capacity bubbles, will eventually lead to much slower growth rates (Pettis, 2010b). Some have invoked the example of Brazil in the 1960s and 1970s, arguing that:

\[\ldots\] today’s Beijing Consensus is really just a replay of Brazil’s trajectory during its golden era. Many of the same ingredients are
there – a strong one-party state calling the shots, the resulting inefficiencies in investment allocation and high debt levels. (Huang, 2010; see also Pettis 2010b)

In this sense, the Beijing Consensus simply reflects the same inherent limits that were faced by East Asian and other developing countries pursuing state-led growth.16

However, for others, China’s state-led industrial strategies are seen as successful or at least as presenting a threat to countries like the US that do not have similar strategies. These analysts therefore urge the US government to adopt its own industrial strategy (Prestowitz, 2010).17 Likewise, some push for the adoption of protective measures, including import tariffs equivalent to the amount of perceived undervaluation of the Chinese currency, to force Beijing to curtail what they view as unfair trade policies (Krugman, 2010). More broadly, some analysts also see a Chinese model of state capitalism as providing justification for increasing state intervention in both developing and developed country economies across the globe (Bremmer, 2009). Thus, to the extent that some see China’s state capitalism as a highly competitive model of economic governance they also fear that it may serve as an alternative to a more liberal Western model of economic development.

In sum, for those who see China as fitting into an East Asian developmental state or mercantilist model the Beijing Consensus often implies a challenge or threat, whether to democratic capitalism or to China’s own continuing development. However, for others, China’s state capitalist model, as embodied in the Beijing Consensus, represents a clear ideological challenge to Western market democracy. They argue that for authoritarian (or would-be authoritarian) rulers everywhere, China stands as an example of the successful combination of a closed political system fused with a state-directed market economy (Barma and Ratner, 2006).

According to this line of argument, as China increasingly interacts with countries in the developing world, in Africa and Latin America in particular, it serves to support and inspire other illiberal regimes. For example, a recent book on the illiberal ideational challenge posed by the Beijing Consensus summarizes this argument as follows:

> **Given a choice between market democracy and its freedoms and market authoritarianism and its high growth, stability, improved living standards, and limits on expression – a majority in the developing world and in many middle-sized, non-Western powers prefer the authoritarian model.** (Halper, 2010a: x)

As those who worry about the illiberal ideational challenge posed by China are quick to point out, China is actively engaged in efforts to enhance its ‘soft power’, including efforts to rapidly expand its media holdings in the
Overall, the range of EuroAmerican opinion that emerges from the scholarship and media reporting on the concept of a Beijing Consensus is quite diverse. Broadly speaking, the category of those who agree that there is such a thing as a Beijing Consensus can generally be split between those who think its existence represents a positive counterexample to the Washington Consensus and those who see it as a threat to Western democratic capitalism. To the extent that the concept of the Beijing Consensus as representative of a Chinese model of development has captured global attention it is in large part because it is seen as a counter to the American based Washington Consensus or even more broadly to the ‘Western liberal idea’ (Fukuyama, 1989). If the ideal-type Western liberal model of development (i.e., a model in which open markets and democracy inexorably go together) was dominant after the end of the Cold War, China’s ongoing economic and political ascendance and maintenance of high growth in the face of the global financial crisis is seen by some to pose a viable alternative to American global economic and political dominance. The Beijing Consensus has thus become the buzzword associated with an ideal-type Chinese alternative, for some positive and others negative, to the Washington Consensus.

COMPETING CHINESE PERSPECTIVES ON THE WASHINGTON CONSENSUS: THE PARTY, AND NEW LEFT AND LIBERAL PUBLIC INTELLECTUALS

Up until this point, in analyzing the relationship between the Washington Consensus and China, the focus has been on how those outside of China have come to see China, for better or for worse, as a challenge to the Western economic and political orthodoxy (as embodied in the Washington Consensus) that has reigned since at least the end of the Cold War. By focusing on the various interpretations and understandings swirling around the concept of a Beijing Consensus in EuroAmerican discussions we can better understand the ways in which academics and opinion-makers outside of China portray the role of China’s state–economy relations in comparative perspective. This question of how best to understand China’s development model was of interest well before the 2008–2009 financial crisis but it has clearly taken on increasing importance in the wake of the crisis and the perceived ‘decline of the West’ and ‘rise of China’ that has ensued. Curiously, and unfortunately, very little of the Western commentary on the Beijing Consensus has much if anything to say about Chinese perceptions or debates about how a purported Beijing Consensus might be replacing the Washington Consensus. In fact, almost by definition the
notion of a Beijing Consensus is frequently associated with a commonly agreed upon understanding of a single model of Chinese development. In this sense, ‘China’ is often portrayed as representing a unified whole in terms of its development experience (or at least its most representative attributes) and as such almost nothing is said of the possibility or reality of various and contending perspectives on the Washington Consensus or Beijing Consensus within China.\(^{21}\) This is both unfortunate and misleading. In fact, not only has the Chinese Communist Party weighed in with its own (critical) portrayal of the Washington Consensus, but the Washington Consensus and its connection to ‘neoliberalism’ have been at the center of ongoing debates between Chinese New Left and liberal public intellectuals since well before the financial crisis. And since the financial crisis, contention within China about the merits of the idea of a ‘China Model’ has only intensified. At stake is nothing less than the power to claim the ‘proper’ description of what constitutes the strengths and weaknesses of state–economy relations in China. With such an influential description comes the power to guide the correct path toward improving upon the strengths and addressing the weaknesses. Below I analyze Party, New Left and liberal perspectives on the Washington Consensus and the idea of an alternative China Model.

The CCP critique of the Washington Consensus

The Chinese Communist Party does not and has not officially promoted the idea of a Beijing Consensus, but even before the 2008/09 financial crisis there was already a CCP-sponsored critique of the Washington Consensus well underway. This Party-sponsored critique of the Washington Consensus has been tightly bound to a broader attack on ‘neoliberalism’, and thus the two terms are often used interchangeably in official discourse. In particular, the current Hu Jintao/Wen Jiabao leadership team, which came to office in 2002–2003, has been keen to associate itself with a move away from an overly narrow focus on development as primarily a function of GDP growth rates. Hu and Wen have insisted that China’s understanding of development must be broadened to include a variety of social factors and so have promoted the idea that ‘scientific development’ and a ‘harmonious society’ must be built on a broad set of social as well as economic foundations.\(^{22}\) Reorienting opinion and policy toward these goals has been set in stark contrast to the perceived evils of neoliberalism in general and the Washington Consensus in particular.

The official Party critique of neoliberalism got its start with a ‘Study Group on Neoliberalism’ created at the Chinese Academy of Social Sciences (CASS) in 2003 (Fewsmith, 2005: 2). The work of this Study Group and the subsequent publication of its findings reflected an official position of the current leadership team (Fewsmith, 2005).\(^{23}\) The Study Group and
the books and articles it produced in 2004 and 2005 were the opening salvo in a continuous attack on the idea of neoliberalism. The CASS research team, through publications like *Analyses of Neoliberalism*, emphasized the international dimensions of neoliberalism, condemning it as an ideological tool of American power and ‘monopoly capitalism’ (Wang, 2004). Likewise, Party-sponsored critiques portrayed the Washington Consensus as a neoliberal, ideological Trojan Horse for US global hegemony. Specifically, the Party critique portrayed neoliberalism as a basic cause of the demise of Soviet and East European socialism (Li, 2004). Then after the collapse of socialism outside of China, the Party critique tied Washington Consensus policies to state weakness, financial crises and worsened income inequality in 1990s Latin America and Russia in particular (Fang, 2004 and Zhang, 2004).

Thus the Party-sponsored attack on the Washington Consensus and neoliberalism should be understood in the context of global trends such as the perceived impact of neoliberal ideas on the demise of socialism in the former Soviet Union as well as on the series of financial crises that spread across developing countries in the 1990s and early 2000s. But the timing of the criticism, beginning around 2004, is also tied in to a broader domestic effort by the incoming Hu/Wen leadership team to separate their ‘scientific development’ policies from those of their ‘neoliberal’ predecessors (i.e., Jiang Zemin and Zhu Rongji). At the same time, criticizing neoliberalism served to protect the leadership from attacks by those on the left (inside and outside the Party) that the Party was abandoning its socialist roots. Thus by the time the global financial crisis hit, the Washington Consensus/neoliberal critique was already well in place. That the financial crisis began in the US, the home of the Washington Consensus, has only helped sharpen the Party critique of what it portrays as a set of fundamentally flawed and harmful ideas. What some in the West have portrayed as a rise in Chinese hubris, or at least Schadenfreude, in response to the US-centered crisis should not come as a surprise but instead is simply a continuation of a critique that was already well in place before the crisis.  

The official Party-sponsored critique of the Washington Consensus is important on a number of levels. It demonstrates the Party’s clear concern for protecting against criticism that the country has abandoned socialism for a Western capitalist road that undermined socialism elsewhere. At the same time, it underscores for a broader domestic audience that the Party is helping to build a Chinese alternative to the pernicious neoliberal model represented by the Washington Consensus. In terms of foreign policy and the promotion of soft power, the Party may not officially sanction concepts like the Beijing Consensus or China Model in the way it does harmonious society or scientific development at home, but maybe it does not have to if foreigners like Ramo or Jacques are willing to say there is such a model that is globally attractive and might one day reign supreme.
Worrying about the China Model: the New Left vs. liberal public intellectuals

If in the attempt to better comprehend China’s relationship with the Washington Consensus and the concept’s greater importance we only focus on the official critique of the Washington Consensus, then we would be missing a much more nuanced and important debate within China about the country’s state–economy relations. This debate is between opposing groups of Chinese public intellectuals. In the late 1990s and early 2000s, a core group of such public intellectuals engaged in often heated discussions about how to identify and then to resolve the key weaknesses in China’s state–economy relations. Those involved roughly fell into what became known as the New Left and liberal camps. While the debate among these two groups lost some of its intensity in the mid-2000s, it has since been revived in vigorous disagreements about the China Model. Within China debates about a China Model have spawned a mini publishing boom. One of the most common features of these studies, especially among those not necessarily associated with either the New Left or liberal camp, is a focus on China’s ‘pragmatic’, ‘ideologically neutral’, and ‘disinterested’ government that has successfully replaced the political and ideological intensity of the Mao years with a simple, do-what-works focus on economic development (see Zhao, 2010; Pan, 2007; Yao, 2010a, 2010b, respectively). However, such portrayals of the China Model as simply ‘pragmatic’ obscure heated debates within China about how state–economy relations have evolved since the beginning of reforms and where they should head in the future.

CHINA’S NEW LEFT: HAVING THEIR CAKE AND EATING IT TOO?

It is very possible that the Beijing Consensus can replace the Washington Consensus. (Cui Zhiyuan, quoted in Cha, 2009)

The Party-sponsored critique of the Washington Consensus, and of neoliberalism more generally, is most closely aligned with the perspective of the group commonly known in China as the New Left. New Left public intellectuals, many of whom have backgrounds as humanities and social science academics, have at least one point in common: a disdain for the idea of neoliberalism and all of the policies and harmful outcomes they see tied to this idea. As with the Party critique discussed above, the Washington Consensus serves as the embodiment of neoliberalism. For China’s New Left, wherever neoliberal ideas spread they create highly inequitable, corrupt and ever-more unstable social and economic systems. In the late 1990s and early 2000s many on the New Left worried that neoliberal ideas and policies had also come to serve as the basis for China’s own economic
reforms. They not only argued against the evils of neoliberalism as a pernicious ‘market fundamentalist’ ideology epitomized by the thinking of people like F. A. Hayek, but they also worried a great deal about who they perceived as agents of neoliberalism in China including their liberal public intellectual counterparts.

In addition to their criticism of neoliberalism both in theory and practice, New Left scholars also stressed the need for government reform to redress the damage already done by what they viewed as the adoption of neoliberal policies. Specifically, they argued that the Chinese central government and the Communist Party needed to bolster their authority in order to strengthen the Maoist/socialist ideal of equality. In particular, they worried that the Party had largely abandoned the peasants and urban workers who were supposed to be at the core of the revolutionary project. At the center of such concerns, and directly tied to criticisms of neoliberalism, was the claim that the central government had devolved too much authority to local governments and businesspeople in a process of ‘deregulation’. They therefore called on a strengthened central government to overcome these centrifugal forces that had led to problems like insufficient central tax revenues and local protectionism.

Not long after the Hu Jintao/Wen Jiabao administration came to office, the heated intellectual arguments between those on the New Left and their liberal foes died down and the official tide seemed to shift, at least rhetorically, toward the positions advocated by the New Left. The Party critique of neoliberalism and talk of a kinder, gentler ‘scientific development’ mirrored New Left rhetoric and concerns. To what extent policy makers were acting on New Left thinking and policy recommendations remains an open question, but the appearance of Ramo’s *Beijing Consensus* tract shortly after the Hu/Wen leadership change offered an alternative focus point for New Left–liberal debate. This renewed debate did not hit its full stride until the serendipitous 2008–2009 combination of hosting the Beijing Summer Olympics, celebrating the sixtieth anniversary of the founding of the PRC and the burgeoning realization of the impact of the global financial crisis (see Bandurski, 2010). Since then, many on the New Left have embraced discussion of a China Model that stands as a clear alternative to the Washington Consensus model responsible for and further tarnished by the crisis.

To emphasize the high degree of interest by New Left public intellectuals in the continued or enhanced relevance of a China Model, the April 2011 100th anniversary celebration of the founding of Tsinghua University included a forum entitled ‘100 Years of Tsinghua and the China Model’. At this event, many of the most influential New Left public intellectuals, including Tsinghua faculty members Cui Zhiyuan and Wang Hui as well as Chinese University of Hong Kong’s Wang Shaoguang, gave presentations on their (largely positive) views of a China Model. On the one
hand, the content of their presentations is less important than the symbolic value of their willingness to speak about the China Model at a Party sponsored event such as this. In other words, giving a speech about the China Model at this event can be read as an implicit sign of support for the idea of a China Model, regardless of the content. On the other hand, much of the content of these presentations was very much in keeping with traditional New Left themes critical of neoliberalism and the Washington Consensus and defending China’s independent and unique path of development. But maybe the most interesting content was connected to yet another in the growing list of consensuses and models: ‘The Chongqing Model’.

As noted above, tracing the actual or direct policy influence of either the New Left or the liberals as a group (or even ‘faction’) or as individuals is extremely difficult in the opaque world of Chinese politics. Adding to the difficulty is that each side accuses the other of having an undeserving degree of influence over policy. Nevertheless, within the context of Chinese debates about a China Model, one of the most interesting developments in terms of members of the New Left seeking a direct and open influence on elite politics has been taking place in the city of Chongqing. Out of this experiment have emerged increasing calls for the viability and importance of a ‘Chongqing Model’ that should serve as an example of where China should be headed.

Such an experiment is only possible because of the controversial former Chongqing provincial Party secretary, Bo Xilai. In 2007 Bo took over the top position of Party leadership of Chongqing, a provincial-level city of over 30 million in Western China. He subsequently garnered headlines inside and outside of China for his anti-mafia campaign as well as his efforts to revive ‘red culture’ by promoting Maoist era revolutionary songs and popular entertainment. Bo also promoted the building of low-cost housing as well as reforming the way the city deals with the country’s residence permit (or hukou) system, both issues that are frequently discussed as priorities at the central level but that are often seen as lagging in actual practice.

During the 2010–2011 academic year, Tsinghua’s Cui Zhiyuan conducted research in Chongqing on what he has dubbed the Chongqing Model of local governance. In a series of articles and lectures, Cui has argued that Chongqing stands as an antidote to neoliberalism. Cui claims that Chongqing is seeking a middle ground between arguments that pose the state and market in opposition to each other. He further argues that the role of the government in Chongqing has been expanding to provide much needed services to migrants, the poor and the underemployed, but that by doing so it is also creating more opportunities for private business. Using a cake metaphor, Cui and others have argued that the size of the Chongqing cake (or economy) is expanding, such that the government can...
continue to play a large role even as the size of the market expands. This is done against the backdrop of criticisms that the government’s response to the financial crisis has led to the expansion of the state at the expense of the private sector (guojin mintui). In addition to Cui Zhiyuan, Wang Shaoguang has also endorsed the Chongqing Model in what he has dubbed ‘Socialism 3.0’ (‘Chongqing Pioneers’, 2010). Thus both Cui and Wang, as two of the leading New Left voices of the last 20 years, appear to be hitching their wagons to Bo Xilai’s star, or at least to the Chongqing experiments in governance reform. The battle over whose model of economic governance is best is sure to be a topic of heightened interest inside and outside of China as the country undergoes Party and government leadership changes in 2012 and 2013.

CHINA’S LIBERALS: CASTING A CRITICAL EYE ON THE RISE OF THE CHINA MODEL

Looking at the cluster of EuroAmerican perspectives on the Beijing Consensus, in combination with the CCP and New Left critiques of the Washington Consensus and neoliberalism within China, one could easily come away with the impression that liberal voices and perspectives in China were non-existent and/or of little influence. After all, if there is a Beijing Consensus or China Model, it supposedly stands in opposition and as an alternative to the democratic capitalist Washington Consensus. As Stefan Halper confidently states, undoubtedly capturing the mood of many in the United States, ‘China is shrinking the idea of the West’ through its ‘illiberal’ combination of authoritarian political system and state–capitalist economic development model (Halper, 2010b). Within China, the Party and New Left critiques of the Washington Consensus in specific and of neoliberalism in general could be read as further clear support of China’s challenge to this liberal ‘idea of the West’. However, what all of this discussion about China’s own illiberal development model and direct critique of the Washington Consensus fails to capture is the popularity and influence of liberal ideas within China itself.

China’s liberal public intellectuals, and in particular the ‘universal [liberal] values’ they are said to promote, may have come under greater official criticism in recent years. Moreover, recent scholarship based on public opinion surveys demonstrates that ‘the regime remains remarkably popular despite the often intense criticism of specific problems’ (Dickson, 2011: 50). However, that does not mean that public intellectuals who espouse liberal ideas have disappeared or even that such ideas are not widely held in the Chinese government, intellectual community or society at large. In fact, as one study of liberal thinking in China puts it, ‘the liberals hold considerably more influence, and their voices have been much more prominent than the New Left’ (Li, 2010). As the previous discussion of Party
and New Left criticism of the Washington Consensus and neoliberalism demonstrated, it is exactly the concern that (neo)liberal ideas and policies have been ascendant at the international and domestic level that has animated these critiques. But what does liberalism mean to those in China who espouse it?

There is by no means one single answer to this question. As with the New Left, those who consider themselves liberals are part of a wide-ranging and often disparate group. However, as one recent study explained, ‘The majority of intellectuals in China today are at least prone to liberalism in the sense that they share beliefs in market economy, individual rights, criticism of state monopoly power, and, to a lesser extent, liberal democracy’ (Feng, 2010). An editor at China’s leading economic journal and publishing organization, Caixin, agreed that liberal, or more specifically ‘classic liberal’ principles are widely shared across academic fields in China (author interview, 21 July 2010). Underscoring these Chinese liberal principles is a commonly held belief that markets are more effective than the state at producing efficient economic outcomes and that social justice is best served by limiting state interference in the economy and allowing markets and ‘civil society’ more free reign to provide an alternate form of order or stability from the ground-up. The roots of Chinese liberal thinking run deep in the last century of Chinese history and continue to play a key role in contemporary debates about the proper relationship between state and economy in China.

As such, if Party and New Left criticisms of the Washington Consensus and neoliberalism have indirectly or directly implied support for an alternative China Model, it should come as no surprise that liberal commentary on such a model has been quite critical. Contemporary Chinese liberal public intellectuals do not espouse the Washington Consensus per se, but instead criticize what they see to be the excessively large and unrestricted state role in the economy and society. For some liberals, talk of a Beijing Consensus or China Model amounts to glorification of much of what they see wrong with Chinese politics, economics and society.

Qin Hui, a Tsinghua University historian and leading liberal public intellectual, has expressed these concerns about the China Model as clearly and strongly as anyone. In an extensive critique of the ‘Rise of the China Model’ Qin argues that China’s rapid economic growth has been facilitated by unchecked state authority. Qin (2010) argues that because Chinese workers are not free to organize and local officials do not effectively implement environmental regulations, production costs are kept lower than elsewhere in the world. Qin further argues that because state power is not constrained by constitutional or other formal legal means, debates between left and right in China are fundamentally different than in either relatively laissez-faire America or democratic socialist Sweden. Qin laments that Western praise or criticism of a China Model often misses this
fundamental difference. Whether it is Ramo’s utopian vision or Halper’s
dystopian concern about the attractiveness of Chinese ‘state capitalism’,
Qin argues that in fact no country with a market democracy and even
a relatively minimal welfare state would practically or ethically want to
‘learn’ from the Chinese model unless they were willing to turn their own
political, economic and social systems back about a hundred years.

Like Qin, other liberal public intellectuals have come out strongly op-
posed to the idea of a China Model. Think tanks like the Boyuan Foun-
dation and The Unirule Institute of Economics (Tianze in Chinese) have
held conferences that highlight the thinking of other self-declared liberal
public intellectuals like Xu Jilin, Qin Xiao and Mao Yushi. Xu Jilin in par-
ticular has argued that New Left arguments in favor of a China Model
provide intellectual support for continued one-party dominance (Kelly,
2011). Prominent professional economists like Wu Jinglian have also long
criticized the overly-close relationship between Party, government and
business officials that underlies growing inequality and is the source of so
much popular discontent. Moreover, some liberal public intellectuals have
pointed critically to New Left support for a ‘Chongqing Model’ as defini-
tive proof of the ‘collective swing to the right on the part of the radical
left’ (Kelly, 2011). Such concerns have been echoed by Australian reporter
John Garnaut, who has presented evidence that Chongqing’s Bo Xilai has
simply used leftist rhetoric and symbolism as a cover for accumulating
wealth and power (Garnaut, 2011a, 2011b). Many Chinese liberals worry
that such is the stuff of the real China Model. They therefore continue their
calls for constitutional and other legally binding restrictions on central
state authority in addition to greater allowance for the development of
local civil society organizations.

Thus Party, New Left and liberal contention within China over con-
cepts like the Washington Consensus, neoliberalism and the China Model
reflect fundamental disagreements about the very nature of China’s
state–economy relations. If American or European discussions and de-
bates about whether or not a Beijing Consensus has emerged as a clear
alternative to the Washington Consensus are a reflection of concerns about
the challenges facing their own countries, then the Chinese equivalents
of these debates are more about the challenges China faces itself. That is,
whether it is the official Party line critical of the Washington Consensus,
New Left support for a China or Chongqing Model, or liberal anxiety about
what those models represent, all point to shared concern about the very real
political and economic challenges facing China. It would be wise for those
outside of China who weigh in on the question of whether there is or is not
a Beijing Consensus or China Model to more carefully consider that many
within China have quite a lot to say on these very issues. They may not find
the consensus they seek, but instead may be rewarded with a better un-
derstanding of vigorously debated solutions to China’s many challenges.
CONCLUSION

The free-market tide has now receded. In its place has come state capitalism . . . This trend has stoked a new global competition, not between rival political ideologies but between competing economic models. (Bremmer, 2009)

Make no mistake, the competition between economic models is a battle of political ideologies; debates about a Beijing Consensus replacing the Washington Consensus are nothing less. The notion that economic models and political ideologies can be separated fails to capture the importance of how economic ideas, and contention over those ideas, underpin, justify or help to overturn those models. As this article has explored, the question of what China’s economic model is and how it relates to the Washington Consensus, and what ideas underpin these questions, is very much a topic of debate inside and outside of China. However, it seems that many outside of China, be they scholars, journalists or government officials, often seem much more sure of what the model and underlying ideas are, not to mention the level of underlying agreement about those ideas, than conforms to the level of contention and disagreement about these ideas within China itself.

The different ways in which the Beijing Consensus or the China Model are portrayed as alternatives to the Washington Consensus are in themselves part of the battle of ideas. The co-existence of quite varied explanations of what the Beijing Consensus is or isn’t is evidence of a competition to best explain what China’s state–economy relations look like in comparative perspective. A key part of this competition is to subsequently draw implications for China, and maybe just as importantly, for the rest of the world.

Here, two important policy implications about the relevance of the international and Chinese debates swirling around the Beijing Consensus deserve further exploration. First, the international financial crisis and the subsequent increase in interest in the Beijing Consensus coincided with a clear change in the willingness of Chinese officials to listen to Western preaching about ‘best practice’ on issues ranging from international finance to intellectual property rights. The rise in popularity of the Beijing Consensus highlights the way in which such a concept can provide an important source of ideational support for interests within China seeking to delay or altogether overturn further economic or even political reforms. The 2012–2013 Chinese leadership transitions will simply underscore the importance of various and contenting understandings of the Beijing Consensus for the direction of a range of domestic policies.

At the same time, at the international level, just as the Washington Consensus came to be associated with inflexible and draconian neoliberal
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policies foisted onto developing countries by international financial institutions, so too any emergent Beijing Consensus might eventually take on a life of its own. As China seeks to gain greater influence in international economic and political bodies, the ways in which an emergent ‘consensus’ about how China can and should be a different kind of actor in the international arena will inevitably be tied to understandings of the Beijing Consensus. One need look no further than China’s efforts to legitimize its foreign aid and ‘South–South’ policies in developing regions like Africa and Latin America to see how the emergent and contested concept of a Beijing Consensus might become the focus of specific international policy debates. Therefore at both the domestic and international level the Beijing Consensus/China Model concepts deserve to be placed on scholarly and policy research agendas.

But to return to the question about what the Beijing Consensus is or isn’t, how are we to judge who is right? Is there a Beijing Consensus that already has or is soon to topple the Washington Consensus? The point may not be in finding the ‘correct’ answer, but rather that power lies in depicting China’s model as being one thing or another. For by doing so, any given author, policy maker or pundit points back to him or herself as the best source of true understanding about the real nature of the challenges China and the world face and therefore of the proper way to address those challenges. But as this article has demonstrated, the reality of China is not only complex but also highly disputed.

This is not, however, an argument for absolute relativism. Among other things, China does not have a competitive political party system and it does seek to strategically regulate certain sectors of the economy in order to create national champions. But this does not necessarily mean that there aren’t a large range of domestic challenges to how the political system should be organized or that China is all that effective at creating such national champions. Thus we should be wary of arguments that portray the Beijing Consensus as the antithesis of the Washington Consensus, or the China Model as one of illiberal state capitalism. Because in fact within China there is vigorous, if sometimes less than transparent, political contention over not just specific economic policies, but over the basic principles that should be applied when making those policies. In fact, those principles often happen to be a variant of the same liberal, or even universal, values against which China is supposed to be a counterexample.

For the past three years teaching international political economy to Chinese undergraduates and graduates, I have dedicated the final class to a discussion of Francis Fukuyama’s 1989 ‘End of History’ National Interest article (Fukuyama, 1989: 3). I have asked the students, given the perspective of 20-plus intervening years, how well they think Fukuyama’s claim that there was a ‘total exhaustion of systematic alternatives to Western liberalism’ has held up. I then ask them whether they believe that China does
or should offer such a systematic alternative. I had originally anticipated that the students would respond ‘not so well’ to the first question and ‘yes’ to the second. In fact, aside from silence or the occasional sly grin, the most typical response has been one of ambivalence on both counts: China may or may not offer a systematic alternative to the ‘Western idea’, but then again, the surety of the correctness of such ideas, whether of ‘consensus’ emanating from Washington or Beijing, is perhaps misguided. Liberal ideas, in addition to many others, are alive and well in China, as is vigorous contention about their meaning and impact on China and the rest of the world. Maybe this ongoing battle of ideas, consensus or no, means that China is not so illiberal after all.

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**NOTES**

1 For a much earlier argument that China’s developmental successes were in important part due to following core Washington Consensus tenants see Nolan (2001).

2 Kennedy does not actually include privatization in his list of the eight policies that correspond with the original tenets of the Washington Consensus, but he does note that ‘a substantial portion of SOEs have been privatized since the late 1990s’ (2010: 470).

3 Yao in particular has become increasingly critical of the idea of the Beijing Consensus. See Yao (2010a).

4 For more on the importance of these ‘basic starting conditions’ for understanding what is possibly unique, or at least of central importance, in China’s post-Mao developmental trajectory see Naughton (2010: 438–39).

5 For more on the internal logic of China’s political and economic reform in the years immediately after Mao’s death see White (1993), Shirk (1993), Dutton (2000) and more recently, Vogel (2011).

6 See Huang (2008) on the timing of rural township and village enterprise (TVE) policy change and Walter and Howe (2011) on the stagnation of financial sector reforms. For more on how China’s current pattern of economic development is undergoing a profound shift, see Dickson (2011).

7 For more on the history of regulatory reform in these sectors see Pearson (2005 and 2007) and Hsueh (2011). Naughton makes the point that the areas in which the government maintains ownership and/or promotes national or local champions are often in ‘non-competitive’ or, alternatively, technologically ‘pioneering’ sectors (Naughton, 2010: 442).

8 Barry Naughton argues for a three-tier understanding of the Chinese economy based on ownership types: ‘large, central government firms; hybrid local and foreign firms; and small-scale capitalism’ (Naughton, 2010: 441).
Boas and Gans-Morse (2009) present an insightful overview of the evolution of the concept of ‘neoliberalism’, demonstrating that scholars often use the term as little more than an ‘anti-liberal slogan’.

While much of what I refer to as the ‘Western’ discussion about the China Model takes place in English language academic and media publications based in the United States and Europe, the amount of interest in, and contributions to, these discussions is burgeoning in many parts of the world. In particular, in developing regions such as Latin America and Africa where China’s trade and investment impact has underdone a boom over the last decade, there is keen interest in the idea of a China Model. For more on the China–Latin America connection in particular see Ferchen (2011).


Former mayor of Chicago, Richard M. Daley, has spoken highly of Jacques’ book, reportedly even writing to Jacques to express his praise in person. Alternatively, former Treasury Secretary Lawrence Summers remarked that When China Rules the World was ‘interesting . . . and disturbing’ after reading the book on the way to Davos (Harris, 2011).

Krugman’s 1994 ‘Myth of Asia’s Miracle’ article is still a classic statement about the limits of this state-led investment model. Jonathan Anderson’s subsequent work on China (2006 and 2009) draws explicitly on Krugman’s 1994 piece. For more positive views of the success and even necessity of state-led investment for China’s growth see Naughton (2010) and Perkins (unpublished manuscript).

For more on how China’s stimulus package is leading to massive local government debt build-up that may have severe implications for any bursting of the property market bubble see Shih (2010).

For an excellent overview of the evolution of the ‘Developmental State’ in Japan, South Korea and Taiwan see Fields (in press).

In the 1980s Prestowitz (1988) also made similar arguments about Japan’s industrial strategy and the imperative of the US adoption of a counter-strategy.

In this sense debates outside of China about the emergence and impact of a Beijing Consensus reflect similarly opposed visions of China’s rise as threatening or peaceful.

Alistair Iain Johnston (2011: 9) has questioned the importance of ‘pundit talk’ of a Beijing Consensus, arguing that few in the US government take seriously that China’s model of development provides a challenge to US interests. It may or may not be the case that US officials are concerned about a Beijing Consensus, but as this article seeks to underscore, even if much of the global debate about the idea of a Beijing Consensus amounts to ‘mere’ punditry, such debate represents a deeply contested political battle over what form of state–economy relations is appropriate and/or ascendant. As such, maybe US officials should be more attentive to such debates.

Even Mark Leonard’s What Does China Think? (2008) has little to say about either Beijing Consensus or China Model debates in China. Others, like Kuhn’s (2009) similarly titled How China’s Leaders Think or Naisbitt’s (2010) China’s Megatrends, are little more than reiterations of CCP propaganda about China’s harmonious and scientific development.

Obviously, in the first section on China–Washington Consensus comparisons above, such assumptions were the object of critical analysis (i.e., questions are...
asked about which policy in which sector during which time). Also, Kennedy (2010) analyzes domestic Chinese discussions about the merits of a ‘China Model’.

22 These twin concepts were enshrined as the official centerpieces of the Hu/Wen leadership team at the Seventeenth Party Congress held in October of 2007. See Hu Jintao’s official report from the Party Congress (Hu, 2007).

23 The title of another article underlines this point: ‘The Party center explicitly wants to criticize and restrict neoliberalism’ (Fewsmith, 2005: 8, fn 6).

24 See Lu (2010) for a discussion about official ‘China “hubris” talk’. However, serious questions remain about how much increasingly aggressive Chinese foreign policy behavior since 2008 may be tied to misperceptions about the relative demise of American power and global commitments after the crisis (see Christensen, 2011).

25 Although not necessarily the same as an invitation from the top Party leadership, Jacques did spend part of the fall semester of 2011 as the special guest of the Department of International Relations at Tsinghua University.

26 A working definition of public intellectuals comes from Cheek: ‘They have academic backgrounds and professional knowledge; they address and participate in public affairs; they maintain a critical spirit and moral ideals’ (Cheek, 2006: 401). Since the beginning of the reform period in the late 1970s there has been vigorous debate among China’s public intellectuals about the proper relationship between the state and the economy. Gloria Davies has remarked that this kind of ‘worrying about China’ is a common theme, in fact a necessary part of being a public intellectual in China in the sense that ‘worrying about China carries the moral obligation of first identifying and then solving perceived Chinese problems’ (Davies, 2007: 7).

27 The terms New Left and liberal are themselves contested. Many grouped under the New Left category prefer to refer to themselves as ‘critical intellectuals’ or not to be given a label at all. Other terms for those in the liberal camp include the ‘new right’ or ‘neoliberals’, again labels that are not necessarily preferred as self-descriptions.

28 For more on the Chinese focus on a China Model rather than a Beijing Consensus see Kennedy (2010).

29 See Naughton (2010) for a critique of this language of ‘flexibility and pragmatism’. But for more on how China has successfully implemented ‘policy experimentation’ to find innovative solutions to developmental challenges see Heilmann (2008).

30 For a comprehensive overview of the various factions or groupings within the New Left see Carter (2010).

31 Many on the New Left claim that the Maoist era was a model of the pursuit of equality in China, but that this goal has been abandoned in the face of neoliberal influence. For an excellent discussion of related debates see Davies (2007).

32 Some New Left scholars, defending themselves from liberal criticisms to the contrary, are eager to emphasize that their particular focus on enhanced central government and Party authority also includes calls for more ‘democratic’ participation. Sometimes referencing European social democracy, and at other emphasizing Chinese communitarian traditions, some on the New Left underline the need for enhanced ‘economic democracy’ to address the concerns of peasants and urban workers. See, for example, Cui (2001, 2003).

33 For three major edited volumes in Chinese on the China Model that have emerged since the financial crisis see Pan (2009), Pan and Ma (2010), and Zhao and Wu (2010).
34 For a full listing of the forum events and transcripts of the presentations see (http://www.huanqiu.com/www/1871/index.html).
35 On March 15, 2012, Bo Xilai was removed from his position as Chonqing provincial Party secretary.
36 As the son of a former high-ranking official, Bo is often categorized as a ‘princeling’, who may eventually be tapped as a member of the Politburo Standing Committee. Moreover, he is often described as one of China’s only truly charismatic leaders. There is also at least one book in Chinese titled Chongqing Model even though Cui is not the author. See Su, Yang and Liu (2011).
37 For more examples of the cake metaphor as applied to the ‘Chongqing Model’ see Cui (2011) and Wang (2011).
38 To underscore the larger stakes of the proliferation of international or domestic models of state–economy relations, as well as to undercut any idea of seamless unity within the CCP, the latter half of 2011 also witnessed much discussion within China about an alternative to the Chongqing Model: a Guangdong Model. The Guangdong Model, named for the province next to Hong Kong, was more in tune with liberal ideas in its emphasis on giving greater play to market forces and limiting government interference in the economy. See ‘The Guangdong Model’ (2011).
39 The awarding of the Nobel Peace Prize to Liu Xiabo in 2010 ushered in much discussion within China and beyond about the appropriateness of China’s adoption of ‘universal values’. For a carefully argued defense of the applicability of universal values in contemporary China see Xu (2010).
40 Beijing and Zhejiang University economist Wang Dingding is one of the most prominent supporters of what he calls ‘sophisticated classical liberalism’. In this vein Wang has long espoused the applicability of the writings of F. A. Hayek to a range of contemporary Chinese economic and political issues. See Cheek (2006) and Fung (2008/2009) for more on the historical roots of Chinese liberalism. Nevertheless, while liberalism may have deep historical roots in modern China, that does not mean that such ideas have been ascendant. In fact, as the Party-sponsored critique of neoliberalism highlights, many liberal ideas are clearly deeply threatening to the Party’s efforts at self-preservation.

NOTES ON CONTRIBUTOR

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Rethinking the Beijing Consensus: how China responds to crises

Yang Jiang

Abstract This paper discusses the role of the Beijing Consensus type of foreign and economic policymaking in China’s development since the Asian financial crisis and in its response to the global crisis, and argues that it has been a double-edged sword, as reflected in several aspects. First, the lesson that China learned from the Asian financial crisis was not the importance of liberalisation but prudence or conservativeness, which despite serving as a shield this time sustains problems in the long term. Second, an obsession with foreign reserves accumulation and the pursuit of political influence have for a long time overshadowed the increasing dependence on the US market, putting China in a dilemma now in both development and diplomatic strategies. Third, centralised decision-making may be faster than democratic processes, but it may also go against the principle of ‘scientific decision’ as proposed by the Chinese leadership. A prominent feature of China’s responses to the crisis is a bias towards state-owned enterprises and the public sector, which exacerbates the existing problems of monopoly, over-capacity, inequality, the regulators being ‘captured’ by industrial interests and protectionism. Given limited economic resources, domestic political contentions and the questionable credibility of the China Model, it would be difficult for China to practice ‘responsible great power’ diplomacy or assume leadership in the region or globally.

Keywords Beijing Consensus; China Model; responsible great power diplomacy; great power style; financial crisis; stimulus package.

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1. Introduction

Beijing may laugh at the Washington Consensus floundering in the global financial crisis, but is it possible that China has fallen into the trap of the Beijing Consensus?

Following the Asian financial crisis, the global financial crisis provided China with another golden opportunity to undermine the Washington Consensus, on the one hand by justifying its political economic system for domestic development, and on the other hand by introducing its development model to other countries. China defends its political system for maintaining domestic stability, fitting the supposedly Confucius culture, and for being able to make and carry out decisions swiftly. Beijing also is also proud of its development path for rapid economic growth, and upholds Deng Xiaoping’s wisdom of ‘crossing the river by feeling the stones’. In a survey of 300 Chinese officials in March 2009, 75% believed that the China Model had undermined ‘three predictions’ made by the West: communism or socialism would die, Western democracy would prevail, and neoliberalism would be a universal model (Renmin Luntan 2009). The Western media also praised China for its swiftness in introducing stimulus packages, which were regarded as helpful for boosting confidence in the global market and particularly beneficial to regional economies. Particularly in contrast to the protracted process of congressional approval in Washington, the ability of Beijing to take quick action is deemed superior for crisis response.

In its foreign relations, since it gained a lot of political capital by maintaining the value of the renminbi (RMB) during the 1997–98 Asian financial crisis, China has positioned itself as a ‘responsible great power’ (fuzeren daguo) in the region and in the world. China praises itself for ‘great power style’ (daguo fengfan), which is opposite to the predatory great powers. In particular, Chinese leaders emphasise China’s generosity in allowing smaller countries the advantage in their cooperation and its determination to speak for developing countries at global institutions, an image that bears resemblance to the Western concept of benign hegemony. Beijing points out that the imposition of conditionalities by the International Monetary Fund (IMF) and World Bank on developing countries have destroyed more than ten national economies including Argentina and Indonesia, particularly thanks to neoliberal economic doctrines embedded in the Washington Consensus in combination with the ensuing modern financial industry and greed. The Chinese government and academia proudly claim that China never attaches conditionalities to its aid or loans to other developing countries and it does not intervene in domestic politics. Many developing countries, including those in Africa, have expressed their appreciation of China’s non-intervention in their domestic affairs, and their intention to learn from China’s development model, for instance by establishing Special Economic Zones and encouraging labour-intensive manufacturing, with the help of Chinese loans, investment and experience.
However, the role of the Beijing Consensus in China’s domestic development needs more scrutiny before it can be introduced to other developing nations or indeed lauded within China. Moreover, the image of a benign hegemon is more difficult to sustain in economic crisis as great powers may become more nationalistic and vulnerable.

Therefore, this paper analyzes the ideational and institutional factors behind China’s development since the Asian financial crisis and behind its response to the global financial crisis, and discusses the implications of domestic conditions for Chinese diplomacy. It asks the following questions: how has the ‘Beijing Consensus’ type of development strategy and policymaking affected China’s response to the global financial crisis; and what implications do they have for Chinese ‘responsible great power’ diplomacy?

The rest of the paper is organized as follows. After reviewing the existing literature on the Beijing Consensus and China’s responsible great power diplomacy, it analyzes the ideational impacts that the Asian financial crisis had on China. The lessons learned by China then serve as a background to the discussion of China’s response to the global financial crisis in the next section, focusing on three major problems: the concentration of distributional power and the resultant ‘unscientific’ decisions, the bias towards state-owned enterprises, and continued reliance on labour-intensive manufacturing and export. Finally, the implications of the ‘Beijing Consensus’ type of policymaking and development strategy for China’s regional and global diplomacy are discussed, assessing the distance of China from its aspired status of a responsible great power.

2. Literature review

Although the ‘China Model’ was mentioned as early as 1991, the term ‘Beijing Consensus’ was dubbed by former Time editor Joshua Cooper Ramo (2004) as a challenge to ‘the Washington Consensus’, and Beijing Consensus (Beijing gongshi) has been used interchangeably with the term the China Model (zhongguo moshi). Ramo’s association of the Beijing Consensus with innovation, sustainability and equitable development is hardly adequate, but despite that or because of it, the Politburo of the China Communist Party (CCP), the core of China’s decision-making power, quickly welcomed the spread of the terms ‘Beijing Consensus’ and ‘China Model’ in the international media, as they were believed to help enhance China’s soft power (Liaowang 2004). However, after the media attention turned to its revisionist connotations, the Chinese government denied that China was trying to teach the China Model to other developing countries or to challenge the existing international order. It states that the China Model means there is no one model for a country; rather, each country needs to search for its own development or political model.

Chinese academia has been debating whether there is one China Model, with many denying this concept (http://theory.people.com.cn/GB/40557/
China watchers compare the influence of the Washington Consensus and that of the Beijing Consensus, commenting on the soft power of the latter and its threat to the existing international order (Kurlantzick 2007; Kroeber 2008; Rachman 2008). Some have found fault with the Beijing Consensus, mostly in authoritarianism, human rights records, income inequality, a withering state and corruption (Gill and Huang 2006; Kennedy 2010; Yao 2010). Although there is no academic consensus over the definition of the Beijing Consensus or the China Model, this paper uses the official Chinese position for analysis of its policies and holds that the Chinese government has explicitly or implicitly given two important meanings to the Beijing Consensus or the China Model: gradualist development and authoritarian decision-making.

Crisis put models to good test. Protectionism is one general concern, and whether great powers are willing and able to provide public goods is another. Despite much rhetoric regarding China’s superior model and great power style during the global financial crisis, to date these has not been a study of the role of the China Model in its response to the crisis, and its implications for China’s ‘responsible great power’ diplomacy. Neither has China’s response to the global crisis been contextualized in China’s development trajectory, in particular its lessons from the Asian financial crisis at the end of the 1990s. Therefore this paper seeks to fill these gaps, with the acknowledgement that the aftermath of the global financial crisis is still rippling, and China’s policies may undergo significant changes due to serious external economic pressure, domestic instability or iron-fisted idealistic leaders.

Since the Asian financial crisis, Beijing has tried to establish an image of a ‘responsible great power’ and demonstrates ‘great power style’, ostensibly used in contrast to other great powers and the US in particular. Eric Teo (2004) suggests that China was trying to revive the tributary system in Asia, and the title ‘the Middle Kingdom’ has appeared frequently in the recent media. China has denied such observations, claiming never to pursue hegemony and emphasizing equality among sovereign states. However, Chinese leaders have heralded Confucianism, the core value in the ancient tributary system, for building a harmonious world. China prides itself on its generosity, compassion and sense of responsibility in its diplomacy in Asia and towards other developing countries. Chinese officials emphasize mutual benefit but also claim to follow the ancient tradition of ‘giving more and receiving less’ (hou wang bo lai) in its diplomacy towards smaller countries. Clearly China wishes to achieve the symbolic status of a great power, both in economic and military strength and in cultural and moral achievements. The model that China wishes others to admire and to emulate and the symbolic status that Beijing aspires to resemble the Western concept of benign hegemony (Kindleberger 1975; Kupchan 1998). It is questionable, however, whether China can carry out the responsibilities of a benign hegemon: providing public goods and creating international institutions.
As diplomacy serves China’s domestic needs and diplomatic ambitions are constrained by domestic conditions, it is crucial to examine China’s domestic political economy and crisis policymaking. There have been criticisms from both within and outside China on the risks with China’s crisis rescue measures, predominantly from an economic point of view: excessive debt, inflation and real estate bubbles (e.g. Yao 2010; Kennedy 2010). Less attention has been paid to the political and institutional factors behind those measures, or the continuity of China’s policies since the Asian financial crisis. The existing or potential economic woes may have institutional, ideational and political roots that are more persistent than the vicissitudes of economic environments.

While Keynesianism enjoys a renewed interest in developed countries during the global financial crisis, the Beijing Consensus or China Model is placed as an exemplary model for developing and Asian economies. Indeed, Chinese finance officials and scholars have cited Keynes in the wake of the global financial crisis, and the prominent role the Chinese state plays in the economy appears similar to Keynesianism (Zhou 2009; Fan 2010). However, China has achieved too little in domestic income redistribution and social security to qualify as a Keynesian state. In its economic representations, the Beijing Consensus resonates more with East Asian developmental state in terms of heavy state intervention, gradualist liberalization and state-backed industrial policies, focused on promotion of export and national enterprises (Baek 2005; Beeson 2009; Kerr 2007). Pioneered by Japan and followed to varying degrees by East Asian economies, the developmental state was once regarded as the core of the ‘East Asian Miracle’ (Amsden 2001; Terry 2002; World Bank 1993; Stubbs 2005). However, disillusionment with this miracle emerged during the Asian financial crisis, when the developmental state became closely associated with crony capitalism (Higgott 1998; Noble and Ravenhill 2000; Stubbs 2005). Certainly, putting the blame on neoliberal measures has continued in crisis-hit countries, but with Japan’s protracted stagnation and the neoliberal reforms of other smaller East Asian economies, the developmental state has only met the opportunity of revival during the global financial crisis. Perhaps because the phrase ‘developmental state’ is accredited to its political rival in Tokyo, Beijing prefers to use the terms ‘China Model’ or ‘Beijing Consensus’. It raises the question whether the typical problems with the developmental model exist in China. Many scholars have pointed out that Beijing’s reliance on economic growth for its legitimacy may not be sustainable, given rising social inequality and public discontent (e.g. Breslin 2007; He 2007; Schubert 2008). Yang Yao (2010), in his provocative article ‘The End of the Beijing Consensus’, correctly states that in the past 30 years China has moved toward the market doctrines of neoclassical economics. However, he argues that the Chinese state survived as a Marxist regime because the state’s ‘predation is “identity-blind” in the sense that Beijing does not generally care about the social and political status of its chosen prey – unlike many
governments elsewhere that act to protect and enrich specific social or political groups’. The ‘indifference’ that he and other scholars characterize the Chinese state with is debatable. Because of development strategy and partial reform, it is possible that even an authoritarian China is captured by certain vested interests, which inhibits further reform and induces policies that exacerbate inequality (Hellman 1998; Feng 2006). The crisis is a good time to investigate whether Beijing has indeed favoured the embedded interests.

The next section will analyze the lessons that China learned from the Asian financial crisis, which serves as a context and explanation for its response to the global financial crisis. The aim is to examine if and to what extent China’s Beijing Consensus type of thinking and policymaking have contributed to recurring or even exacerbating problems.

3. What China learned from the Asian financial crisis

China was affected by the Asian financial crisis in terms of reduced exports and foreign investment, but the most important impact the crisis had on China was ideational. The lessons that China learned from other countries and its own experiences during the crisis have since guided Chinese development and diplomatic strategies and only recently received significant doubt. There are three major lessons: desirability of a responsible great power status, caution about financial liberalization and a strategy to promote exports for economic security and growth.

3.1. Desirability of a responsible great power status

China gained a lot of political capital by keeping the value of the yuan and delivering aid to countries hit by the Asian financial crisis (M. Wang 1998; Y. Wang 1998). China stressed that had it devalued the yuan, international speculators would have again attacked the foreign exchange and stock markets of other East Asian countries. Although China’s lack of support for the Japanese proposal of an Asian Monetary Fund was a major reason for the proposal’s failure, China realised the importance of participating in regional institution building. Chinese policymakers discovered that Japan’s New Miyazawa Initiative in 1998, a US$30 billion financial assistance package for the region, was welcomed by Southeast Asian countries, and that Japan’s influence in East Asia increased (Sun 2007). Having come under pressure from other Asian countries, China also foresaw that certain mechanism for regional cooperation would inevitably be established, even possibly without the participation of China (author’s interview with a Chinese member at the Pacific Economic Cooperation Council (PECC), Beijing, April 2007). This realisation, together with the positive response China received from ASEAN for keeping the value of RMB, prompted China to
adopt a more committed stance in regional cooperation. Despite Deng Xiaoping’s advice for Chinese diplomacy to ‘tao guang yang hui’ (hide the sharpness and accumulate strength), Chinese foreign policymakers judged that it was time for China to also ‘yu shi ju jin’ (follow the trend of time) and ‘you suo zuo wei’ (achieve something).

Since Zoellick (2005) prescribed the role of a ‘responsible stakeholder’ in the international system for China, the emphasis on China being a responsible member in the region and in the global society has become increasingly prominent in Chinese official language. Chinese leaders have, on various occasions, underlined China’s friendship towards its neighbours and its sense of responsibility for the region. A Chinese phrase that the Chinese leaders often quote goes ‘a long road shows the power of a horse, and a long time shows the heart of people’ (luyao zhi mali, rijiu jian renxin), implying that China’s friendship towards its neighbours and other developing countries have passed the test of time, while some Western countries failed. A central claim from the contrast is that China is not a predatory coercive power or hegemony. China argues that its contribution to the region during the crisis showed that China was becoming a great global economic power, but it was under-represented at international financial institutions such as the World Bank, the IMF and the Asian Development Bank (ADB). Beijing also started to highlight its ‘great power style’, which was to ‘give more and take less’ and shoulder collective responsibilities. China has since lauded itself for the great power style on various occasions, for example, when China kept the value of RMB during the Asian financial crisis, when it exempted Africa from US$10 billion of debts in 2000, and when Chinese leaders went on shopping sprees across continents during the global financial crisis.

3.2. Caution about financial liberalization

China did not experience a financial or economic crisis when the Asian financial crisis hit most countries in the region, characterized by massive outflow of international short-term capital, sharp devaluation of the national currencies and difficulty with balance of payments. Many Chinese policy elites realized the necessity of economic reform to strengthen domestic institutions and to enhance national competitiveness. In Steinfeld’s view (2008), the Asian financial crisis helped the formation of an ideational environment in China that enabled members of the Chinese policy elite like Premier Zhu Rongji to push forward more radical and fundamental market reforms. As a result, China’s agenda of ‘reform as the salvation of socialism’ became replaced by ‘markets as the salvation of growth and legitimacy’.

At the same time, Chinese policymakers and scholars became more vigilant of the pitfalls in financial liberalization. Chinese scholars point out that the fundamental reason for the crisis was the inconsistency between domestic reforms and the premature liberalization of the financial market.
Therefore, it is widely held that developing countries should balance reform and liberalization, and that trade integration has more benefits for developing countries than financial integration. In particular, the liberalization of the financial sector should be coherent with the country’s economic development and supervisory ability; it should be even more cautious in opening the capital market (Y. Wang 1998; Xiao 2006; Breslin 2003). They believe that China should conduct financial reform in a stable and active manner, and form a financial surveillance system. Moreover, they hold that the crisis did not happen to China despite problems with Chinese banks because China had capital controls, and that giving up capital controls should therefore be the last step of all marketization reforms, after domestic financial institutions have become strong enough to handle international risks and China has established the mechanism to monitor international capital flows, in particular the short-term ones, and it should be done only after floating the currency (Yu 2007). The consensus in China has been that it should only gradually float the yuan because it is believed that the overall health of the national economy is heavily dependent on trade and domestic savings. In particular, Chinese scholars suggest that China should not allow international free capital – or ‘hot money’ – to enter or leave China freely, for instance by having restrictions on foreign loans of domestic companies and local governments, and that Chinese banks should not allow loans that are not certain to be returned in the future (Fan 1999; Zhong 2008).

Importantly, Chinese scholars criticize the Washington Consensus – with neoliberal economics at the centre – regarding economic reform and liberalization as being not necessarily safe or helpful to East Asian economies, and they hold that China should use discretion when it listens to the advice of the IMF. The reason, they argue, is that privatization and liberalization cannot prevent financial crises but may aggravate or even cause them if not accompanied by comprehensive regulation and supervision. Ding Ningning at the Development Studies Centre of the State Council states that financial internationalization and electronic means of transactions have not increased the transparency of the international market but have exacerbated its instability (Y. Wang 1998).

### 3.3. Promote export for economic security and growth

Because of the devaluation of regional currencies and hence the reduced purchasing power of consumers in the neighbouring countries, China’s growth rate of exports to East Asia declined significantly during the financial crisis. Instead of questioning the export-led model of growth (Breslin 1999), China chose the path to increase exports. One objective was to accumulate foreign reserves in order to prevent anything like the Asian financial crisis from happening to China in the future. Another objective, by accepting the transfer of exports of other Asian countries from the US, EU and Japan to China, China would increase its influence in Asia and promote
the image of a responsible great power (author’s interviews with scholars at CASS, Beijing University and Ministry of Commerce officials in March and April 2006 in Beijing).

The obsession with accumulating foreign reserves combined with the political will to provide ‘market of last resort’ for Asian countries thus led to increased reliance of the Chinese economy on export markets in developed countries like the US and EU (Ravenhill 2006). This model continues to bode poorly for China’s industrialization, as most Chinese activities in the production chain are low value-added processing.

Further results from this growth model are apparent: pressure from other countries on Beijing to appreciate the RMB, trade disputes, inflation, and an increasing need for multiple markets. Inflation has caused domestic instability in recent years and the government has to use administrative measures to control prices, particularly those of food. In order to gain access to multiple markets, Beijing is actively pursuing bilateral trade agreements, most of which are with developing countries. Even though China tries to show that it has the great power morality of giving more and taking less in trade agreements, including voluntarily giving concessions to ASEAN and Pakistan on agricultural trade through the Early Harvest Programmes, such arrangements cannot completely convince smaller countries of China’s benign intentions. For instance, while the Early Harvest Programme boosted ASEAN’s exports of tropical produce to China, the increased Chinese export of temperate produce and manufactured goods to ASEAN countries caused resentment among local producers and again stirred up fears of Chinese domination (Bernardino 2004; Wattanaprittipaisan 2003).

4. China’s response to the global financial crisis

Beijing has been praised by the international community for its swiftness to inject stimuli into the national economy, which is regarded as indirectly beneficial for other countries because of its demand for goods and commodities. The Chinese government also prides itself on its decisiveness in adopting such measures, which indeed have had immediate positive effects on GDP growth. China’s swiftness is often contrasted with American indecisiveness as Washington had a lot of trouble ensuring the stimulus packages could be approved by the Congress, and uncertainty in such a process has led to market fluctuations.

However, it is worth examining whether, apart from the ability to spend money quickly, money has been distributed in a ‘scientific’ way in China and whether it contributes to ‘scientific development’, a catchphrase in China’s current development strategy. Even though the long-term impacts of the measures adopted by the Chinese government remain to be seen, three problems in China’s responses to the global financial crises are highlighted here as a cautionary note to the Beijing Consensus type of decision-making institution and development strategy: the concentration of distributional
power and the resultant irrational decisions, the bias towards state-owned enterprises, and continued reliance on labour-intensive manufacturing and export.

4.1. Concentration of distributional power

The power to supply stimulus funding has been concentrated in the hands of very few actors. At the national level, the distributional power is designated to the National Development and Reform Commission (NDRC) and Ministry of Finance (MOF), supported by industry-line ministries. Concentration of power contributed to the swiftness of decision-making and reduced coordination problems, of which Beijing is proud, but such concentration also has far-reaching implications and risks for China’s political economy.

After two attempts at government reform to reduce its power, the role of NDRC in Chinese domestic politics is reinforced thanks to the global crisis as it assumed the ‘headquarters’ position in government crisis response. The NDRC has inherited a conservative position on reform and opening from its former body, the State Planning Commission. During Premier Zhu Rongji’s institutional reforms in 1998 and 2003, not only were parts of the State Planning Commission’s institutions abolished to reduce the planning element of the state’s role in the economy, but also the newly formed NDRC became largely a research and advisory agency to the central government. However, the NDRC has enjoyed increased power in domestic politics under the Hu-Wen leadership. As domestic stability and development problems became increasingly prominent in particular because of simplistic (cu-fang) liberalization, a more heavy-handed approach has been adopted by the government to intervene in the domestic economy. A more aggressive industrial policy is also adopted to promote national champions in global competition. NDRC is a central agency to carry out such macro-economic ‘control’ (tiaokong). It oversees national macro-economic, energy, price, industrial and investment policies amongst others. Because of the heavy control component in its portfolio and its inheritance from its former body, the NDRC represents the visible hand of planning in China’s economic governance. Other government agencies call the NDRC a ‘small state council’ or a super-ministry, because it has departments matching every sector of the economy and holds a higher political position than the ministries.

The concentration of power in the NDRC reached such a level that problems of lack of capacity there and resentment among other agencies started to surface. It was also obvious that China lacked a clear or coherent industrial policy, although it implicitly resides in the NDRC. An important task in the 2008 government ‘big ministry’ restructuring was to reduce the responsibilities of the NDRC through diverting part of its power to other agencies. The Ministry of Industry and Information Technology (MIIT) was established by adding more ‘industrial policy responsibility’ to the former Ministry of Information Industry. The State-owned Assets Supervision and
Administration Commission (SASAC) also became more assertive over its power to regulate state-owned enterprises (SOEs).

However, with the onset of the financial crisis, the NDRC assumed paramount power again over the national economy. The Review of the National Development Plan 2008 and Development Plan 2009 were drafted by the NDRC, which included the distribution of the RMB 4 trillion stimulus package. The content of the package will be discussed later, but it was obvious that the distribution was decided without wide consultation. An official from a municipal government in Henan province said that the NDRC was pushing local governments to come up with projects to submit for approval, in contrast to the cautious, slow process of vetting investment applications earlier (Liao 2009). At the end of 2008, in order to compete for the first batch of RMB 100 billion, local officials occupied all the hotels near the NDRC. In order to dispatch funds quickly, the NDRC also approved many applications that had been shelved earlier – the quality of those applications then is in question (author’s interview, Beijing, 2009). There have been calls to publicize more detailed information about projects funded by the RMB 4 trillion, and problems with its usage have been reported sporadically (Wei 2009).

A lot of money and discretion were also granted to local governments and state banks. The stimulus packages were distributed to provincial governments, to be used in combination with provincial funding for supporting local projects. The central government also distributed 200 billion local government bonds, which may exacerbate the problem of local government debt. State commercial banks at various levels received administrative orders to fulfil quotas for giving out loans within a short time. In the first quarter of 2009, bank loans already reached 4.58 trillion yuan, mostly on infrastructure, public projects and mergers between SOEs, although part of it is also spent on agriculture, innovation and consumer loans (excluding houses) (Sun and Xi 2009). Such a rapid and particularistic distribution increases the possibility of corruption and bad loans. Coastal provinces like Guangdong complained that the first two batches of 100 and 130 billion yuan were heavily tilted towards middle and western regions although coastal areas were most severely hit by the crisis (Su 2009). It was also reported that local governments might not be able to provide the complementary investment needed for the RMB 4 trillion package: RMB 600 billion was needed but an estimated RMB 300 billion was available. However, local governments tried to match the state funding, not least because NDRC made it clear that for the first batch of RMB 100 billion investment, if a local government could not provide complementary funding, its future investment from the central government would be reduced. The two main instruments used by local governments to obtain funding are borrowing from banks and renting out land. Some local governments also set up investment companies for big projects with managers appointed by the Organization Department of the Party, evaluated by the local SASAC, funded by local
finance, and projects approved through local NDRCs. Without adequate supervision after the approval of funding, the government bonds could be used first to pay salaries, build houses and buy cars, before they finally go to projects, a similar practice to how the stimulus was dispatched after the Asian financial crisis (Xing 2009).

With the discretionary power at all levels of government and banks, China’s overseas investment, after a period of caution because of previous unwise decisions and host country resistance, is again encouraged to tap into various countries with a higher profile, causing more concerns in other countries and backlashes of economic nationalism. The Chinese way of obtaining natural resources through upstream long-term contracts and continued demand of raw materials have contributed to international price hikes of commodities such as iron ore and copper, which most Chinese importers have to absorb and in turn have added to the costs of Chinese producers and consumers. Although Chinese private carmaker Geely successfully acquired Volvo, the acquisition of Norwegian Elkem by the Chinese state-owned Bluestar has caused concern about the loss of leading technology to China. The China Investment Corporation (CIC), a sovereign wealth fund, and the planned China Investment Corporation II under SASAC are expected to be active in conducting overseas investment, but their capacity to make wise business decisions remain to be seen. For example, the CIC has received wide domestic criticism for huge losses in three major investments in Blackstone, Morgan Stanley and the American Reserve Primary Fund.

Compared with the NDRC, SASAC and MIIT, MOFCOM is a more liberal pocket within the Chinese government, but it cannot do much in a protectionist international environment and under domestic pressure to ensure GDP growth. MOFCOM adopted measures to boost exports, such as resuming export tax rebates on some labour-intensive products that China has traditional comparative advantage in and had been trying to gradually move away from. Such measures are easily subject to international criticism for being protectionist or mercantilist. MOFCOM, with the help of industrial associations, is also busy fighting trade wars, in the form of both responding to anti-dumping allegations and defending restrictions on Chinese exports of raw materials. Certainly, the MOFCOM participates in WTO negotiations, but its room for concession is much constrained by domestic economic and political conditions. In particular, a large number of migrant workers lost their jobs at manufacturing factories in coastal areas and were forced to return to their farmland, some of which no longer existed because of land development and government appropriation. China’s negotiations on the WTO Government Procurement Agreement (GPA) is underway, but the China–EU Chamber of Commerce and some of the world’s largest companies, including General Electric, Siemens and BASF, have recently complained that China preferred domestic bidders and the investment environment in China in general (Li 2009; Anderlini 2010). Although China is not yet a member of the GPA while the US is, both countries’ initiative
to encourage the purchase of domestic products suggest that nationalism speaks louder than internationalism.

In short, the distributional power in China’s crisis response was concentrated in the hands of a few actors, in particular the NDRC, MIIT and SASAC, which are known for having a cautious attitude towards reform and liberalization. Transparency and consultation are lacking in the distribution and usage of the funds at state and local levels of the government. It is questionable whether such decision-making could be scientific, as the funding is likely to favour a few actors who lobby intensively, to use state resources on projects without enough scrutiny, and to increase the element of planning in the domestic economy.

4.2. Bias towards state-owned enterprises and labour-intensive manufacturing

State-owned enterprises are the major beneficiaries of the stimulus packages. The stimulus plans for ten industries (automotive, steel, non-ferrous metals, textile, equipment and machinery manufacturing, ship manufacturing, information, light manufacturing, petro-chemicals and logistics) have a clear bias towards heavy industries and labour-intensive industries. Statistics from the first quarter of 2009 show that RMB 4.58 trillion of bank loans have gone to the ‘second industries’ (26.8% increase, cf. 85%, 29% for first and third industries) like real estate, electrical appliances, coal, concrete, metals, port and machinery, which are dominated by SOEs. Each of the industrial stimulus plans was drafted by the NDRC, supported by MIIT, business associations and representatives of big enterprises in the industry. Implementation of the plans are usually monitored by the NDRC and MIIT. In several of them (automotive, shipbuilding, electronics, IT), expansion of SOEs through mergers or alliances is encouraged (e.g. with tax breaks). For example, the drafting group for the shipbuilding industry stimulus plan decided that if small companies could not change businesses or merge with big companies, they had to go bankrupt. Several industry-line ministries jointly requested the State Council to set up an export credit guarantee company at the CIC to help the financing of export-oriented SOEs.

The SASAC is supposed to regulate SOEs and is in charge of SOE reform towards market economy standards. In practice, however, the role of SASAC has always been unclear, particularly whether it is a shareholder, regulator or manager. It is therefore sometimes called ‘the great butler of SOEs’. The SASAC held a meeting in January 2009 to set the annual profit targets for state SOEs as a measurement of the performance of their managers, and the Enterprise State Asset Law came into force on 1 May 2009, with the ambition of clarifying and strengthening the role of the SASAC as an investor and asset manager. Despite these measures, the portfolio of SASAC remains unclear. The new law leaves room for several industries to
retain a state monopoly, but still it has already met with arguments from enterprises and their line ministries about how to decide the budget of SOEs. SASAC has been investigating the problem of excessive expansion by SOEs since mid 2008, but the government’s crisis response clearly encourages expansion of SOEs. Instead of further market reforms, SASAC is authorized by the State Council to design measures to rescue the SOEs with huge losses in the form of cash or the SOEs being taken over by the State Asset Management Corporation. Although the official rhetoric mentioned support for small and medium enterprises (SMEs), reports continue to show the difficulty that SMEs have in obtaining loans. For example, RMB 1.6 trillion went to the railway system but the profitable segments were taken over by SOEs under the Ministry of Railways, leaving small or private enterprises with no incentive to invest (R. Wang 2009).

In short, the stimulus packages strengthened the role of heavy industries, the big SOEs as well as their line ministries in the domestic political economy. The cultivation of SOEs as monopolies runs the risk of creating rents, discouraging innovation as well as foreign investment. And as the power of monopolies grows, it would become more difficult for the state to regulate SOEs or to pursue more balanced development.

4.3. Continued reliance on labour-intensive manufacturing and export

The stimulus packages represent a setback in China’s effort to upgrade the industrial structure. The measures encourage China’s traditional comparative advantage in labour-intensive sectors and promotes exports despite its rhetoric over stimulating domestic demand. Even though the development model that relies heavily on export of cheap manufacturing goods has created many jobs and accumulated huge foreign reserves for China, the Chinese government has realized many drawbacks of this model. Chinese leaders have started to emphasize sustainable, balanced and ‘scientific’ development, with an ambition of climbing up the value chain and gradually moving sunset industries out of China.

However, the global financial crisis set the clock back for several labour-intensive sectors. The decision to halt the appreciation of RMB in mid 2008 was one measure to support exports. China also resumed tax rebates for the export of labour-intensive products. The stimulus plan for the textile industry 2009–2011 that came out in April 2009 includes stabilizing export markets, increasing export tax rebates and exploring multiple markets. In another sector that has over-capacity problems, China started a rural movement – a four-year ‘electronic appliances going to the countryside movement’. It is led by MOF, MOFCOM and MIIT and uses administrative measures to push up local consumption. The brands being promoted in this
movement were chosen from a domestic bid to the China Electronics Import and Export Corporation. Just as the rural movements are Chinese in character, local government measures often follow old Chinese ways of fulfilling tasks. For example, some local governments even imposed quotas for lower-level government units to fulfil. In some places, the sales of electronic appliances did rise because of reduced prices, but there is also evidence that some farmers regard this movement as another trick of the government to try to get money out of their pockets.

The problem of over-capacity was exacerbated as a result of the stimulus packages. For instance, as a result of the support of construction and infrastructure in the RMB 4 trillion stimulus package and the industrial plans for automotive, steel, machinery and shipbuilding, investment in steel production, which hit RMB 140.5 billion in the first half of 2009, was expected to lift the annual capacity to more than 700m tons, compared with domestic demand of about 500 m tons in 2008 (Xinjingbao 2009). At the same time, as mentioned earlier, international iron ore prices rose due to Chinese imports. Domestic overcapacity and reduced demand for steel products has led to the fall of the steel price and bankruptcy of a large number of factories, for instance in Hebei and Jiangsu provinces. The problem of over-capacity became so severe that the State Council made a statement in September 2009 that highly polluting sectors including steel, coke, cement and plate glass must cut capacity, while silicon and wind power producers should pursue more orderly development. With more state components in the economy, the government may be able to strengthen its regulation over SOEs and to cultivate national champions to become global competitors, as well as to monitor risky behaviour such as investment in financial derivatives. However, the effect of such regulations is limited. Not only private companies but also SOEs continue to pursue their own economic interests and strategies regardless of government criticism.

A crucial task of the crisis response was to stimulate domestic demand. However, the original plan for the RMB 4 trillion stimulus package was criticized for not spending enough on social welfare; instead, it focused heavily on the construction of schools and hospitals in this policy area. The expenditure on social welfare was increased in the revised version of the RMB 4 trillion plan, which reflects the influence of public opinion on state policy. The 2009 budget increased the spending on health, education and social insurance by 20%, but the share only increased 0.9%, to 7.1% (cf. 15–30% in developed countries). The government lifted the restraints on residency in Beijing and Shanghai for new university graduates, and ordered some SOEs to hire a certain number of university graduates, but unemployment continues to be a serious problem in China and there is little unemployment subsidy. Stimulating domestic demand in China seems to remain a long-term, challenging task. A central source of China’s international power, a huge domestic market, may become merely an illusion.
5. Discussion: implications for the ‘responsible great power’ diplomacy

Undoubtedly, China seeks the image and status of a ‘responsible great power’, with its moral and material superiority attributed to the Beijing Consensus or the China Model. However, the above analysis shows that China’s development strategy contains significant problems and risks. They not only render the model difficult and even dangerous to copy by other developing countries, but also may compromise China’s ideational and material superiority if those problems become serious. As China’s response to the global financial crisis shows, it is already constrained by domestic political and economic conditions in providing public goods or showing great power style to smaller countries in Asia or elsewhere.

In trade, measures that promote labour-intensive manufacturing goods are resumed as mentioned earlier, and this intensifies competition with other Asian and developing countries. Reduced exports means large numbers of laid-off workers and possibly social unrest, something Beijing can ill afford. For Chinese leaders, domestic stability is the greatest concern; in other words, a ‘harmonious society’ precedes a ‘harmonious world’. In its pursuit of multiple export markets, China has contributed much more to the creation of bilateral and regional institutions than to the WTO despite widespread criticism that FTAs have spaghetti bowl or noodle bowl effects on world trade. Just as US bilateralism in the 1990s launched a second wave of FTAs, Chinese activism seems to have kickstarted another domino effect. China is still reluctant to accept a multilateral regional trade regime in Northeast Asia or East Asia, largely because of political rivalry with Japan, but also because of concern over potential competition from the products and services of developed Asian countries. At the WTO, China has kept a tough position since its entry, in particular over agriculture, services and intellectual property rights (IPRs). China criticises major Western countries for protectionism during the global financial crisis, but it does not wish to be labelled as the leader of developing countries because ‘the distribution of interests at the WTO are very complex and changeable’ (author’s interview with MOFCOM officials, Beijing, May 2006, July 2009). China has successfully created a category of ‘newly accessed members’ at the WTO to avoid many further concessions. In finance, the global financial crisis has brought China new opportunities to demonstrate great power style and the superiority of the China Model. In a significant step in May 2009, China agreed to contribute the same amount of money as Japan (US$38.4 billion each) to the expansion of the Multilateralization of the Chiang Mai Initiative (CMIM) reserve pool in May 2009. China also signed bilateral swap arrangements from December 2008 to March 2009 with South Korea, Hong Kong, Malaysia, Belarus, Indonesia and Argentina worth a total of RMB 650 billion. It should be noted that BSAs are a shallow form of financial cooperation and carry low risk for the potential lender. For deeper and riskier forms of financial cooperation, such as exchange rate
coordination, China has lacked enthusiasm due to its closed capital account, ‘managed floating’ exchange rate policy and lack of confidence in its financial institutions. China remains resistant to the idea of an Asian currency and reluctant to build an independent surveillance mechanism in East Asia. However, China has started promoting the usage of RMB in its neighbouring countries and some other developing countries that have close trade ties with China. Apart from the stabilising effect on trade, those measures are designed as gradual steps towards the internationalization of RMB, because China recognizes seigniorage as a source of international power, and presages RMB to be one of the international reserve currencies. However, with the risk of insolvency at local governments and state commercial banks, financial liberalization and thus China’s role as lender of last resort are still a long way off.

At global financial institutions, China used the opportunity of the global financial crisis to call for an increase of voice from developing countries and prides itself on the rise of the G20 against the G7. At the same time, China is careful not to be burdened by the ‘China responsibility’ discourse with ‘unduly high or even blind expectations’. A researcher at MOFCOM even announced that the China responsibility discourse was just another version of the China threat rhetoric, and China would refuse responsibilities imposed by others for such titles as a surplus country, a debtor country, a savings nation, a big energy consumer or a big CO2 emissions country (Xinhua 2010). It is not hard to understand China’s caution given signals of looming domestic economic problems.

In summary, the lesson that China learned from the Asian financial crisis was not the importance of liberalization but prudence or conservativeness, which despite serving as a shield in the global financial crisis, sustains problems in the long term. Since the Asian financial crisis, China’s obsession with foreign reserves accumulation and the pursuit of political influence have overshadowed the increasing dependence on the US market, now causing China dilemmas in both development and diplomatic strategies towards developing countries. The Beijing Consensus type of decision-making may be faster than democratic processes, but it may also go against the principle of ‘scientific decision’ or ‘balanced development’ as proposed by the Chinese leadership. A prominent feature of China’s response to the crisis is a bias towards state-owned enterprises and the public sector, which runs the risk of monopoly, over-capacity, inequality, the regulators being ‘captured’ by industrial interests and protectionism. The status of a responsible great power either in the region or in the world remains Beijing’s aspiration, still far from reality.

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Assessing China’s Economic Catch-Up at the Firm Level and Beyond: Washington Consensus, East Asian Consensus and the Beijing Model

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ABSTRACT This paper takes a new Schumpeterian economics approach in examining firm-level technological catch-up strategies in China. We focus on the strategies for learning and gaining access to a foreign knowledge base. We also underline unique Chinese features, including forward engineering (i.e. the role of university spin-off firms) in contrast to reverse engineering, acquisition of technology and brands through international mergers and acquisitions (M&A), and parallel learning from foreign direct investment (FDI) to promote indigenous companies. These features comprise the Beijing model because they were not explicitly adopted by either Korea or Taiwan. At the macro and aggregate levels, we find that China follows the “East Asian sequencing” rather than the Washington Consensus. We also discuss several challenges facing China, such as design capabilities and localization of intermediate parts. We conclude that the Chinese industry will not remain a low-end original equipment manufacturer (OEM) economy but will rise to the level of high-end or brand producers.

KEY WORDS: China, catch-up, Washington Consensus, East Asia, Beijing model

1. Introduction

A number of latecomer economies have achieved a certain level of catch-up, but the question of why others have not has become a significant concern. Despite the sizable amounts of development aid, the gap between rich and poor countries persists. Rodrik (1996) extended this comparison in terms of the Washington Consensus and explained the sources of the performance difference between East Asia and Latin America. China is an example of an East Asian country that is successfully catching up yet deviates from the full...
package of the Washington Consensus. This paper examines China with a focus on the country’s economic catch-up strategy from a comparative perspective.

This paper employs the Schumpeterian economics of catch-up as its theoretical framework, as represented by a series of works such as Verspagen (1991), Fagerberg and Godinho (2005), Lee (2005), Mazzoleni and Nelson (2007) and Nelson (2008a, b). Schumpeterian economics considers innovation as the fundamental force of economic changes. The catch-up pattern for latecomers starts with learning from forerunning countries before segueing into the innovation phase (Nelson, 2008a, b). Therefore, a successful catch-up should consider the institutions of knowledge learning and creating as well as the modes for access to foreign knowledge bases. As such, our primary objective is to provide a comparative analysis of China and other catch-up countries in terms of the modes of learning and access. Second, we aim to assess the prospects of China in acquiring “indigenous” innovation capabilities. Our unit of analysis starts at the firm level and reaches further toward the national and policy dimensions.

Several unique elements of learning and access strategies of the Chinese catch-up model (i.e. the “Beijing Consensus”) not found in the models of Taiwan or Korea are identified. These unique features include the following: (1) parallel (indirect) learning from foreign direct investment (FDI) firms, (2) forward engineering (the role of university spin-off firms) in contrast to reverse engineering adopted in Korea and Taiwan, and (3) acquisition of technology and brands through international mergers and acquisitions (M&A) and going global (zouchuqu) at an earlier stage of economic development. Discussions on these features are presented in Section 3. Section 4 presents the limitations of the current strategies and other challenges facing China and provides an assessment of the prospect of China’s upgrading to higher end and branded producers.

2. Theoretical Perspectives

Some Comparative Perspectives

When China opened its door and reformed its policies in the latter part of 1978, its per capita income was less than 10 per cent of the world average in terms of the purchasing power parity adjusted dollars in 2000 prices. Currently, China’s per capita income has reached about half of the world average (Lee, 2011). This is a truly remarkable achievement. Naughton (2007: 5–6) argued that China’s economic institutions are closely resembling those of other developing countries, and the challenges that China faces are shifting and increasingly resembling those faced by other middle-income developing economies (Naughton, 2007: 5). Thus, it makes more sense to compare China with other developing countries than with other transition economies.

Qian and Weingast (1996) and Lee et al. (2002) are among several studies that have compared China with its neighbors or with Western economies. As a study on macro policy-oriented characterization of China, Lee’s work (2006) is useful in comparing the Washington Consensus with East Asian sequencing, emphasizing the three missing elements from the

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1 The term Beijing Consensus has not been academically defined. Ramo (2004) defined it as a combination of emphasis on innovation, sustainability and equality, and self-determination.
Washington Consensus. The idea of sequencing originated from Rodrik (1996) who first explored the puzzle of the slow growth of Latin America, the economies of which have more closely followed the Consensus compared with East Asian economies. According to Rodrik’s main observation (1996), although Latin America endorsed and tried simultaneously all 10 elements of the Consensus, Korea and Taiwan adopted only the first half (i.e. macroeconomic stabilization, 1–5) but maintained microeconomic intervention by not committing to the second half (i.e. privatization, liberalization, deregulation, etc.) until the latter stages. A summary of this study is provided in Table 1.

Reviewing the experiences of several countries in Asia, Lee (2006) argued that the mixed results of the Consensus have something to do not only with policy sequencing but also with missing or neglected policies, such as technology policies and higher education revolution. As shown in Part B of Table 1, we believe that these policy elements are absent from the Washington Consensus and can be considered as the core distinctive elements of the East Asian Consensus.

The shift of emphasis from the sequencing of traditional macro policies to the missing elements of technology and higher education is important in understanding the long-term growth prospects of a nation. As Ocampo (2005) emphasized, macroeconomic stability is not a sufficient condition for growth; it is more closely tied to the dynamics of the production structure. A concrete example is Korea. Like other developing countries, Korea used to be always confronted with external imbalances and persistent trade deficits during the first two decades of its industrialization in the 1960s and 1970s. However, since the 1980s, the country realized that it cannot compete with other emerging economies offering cheaper wages and had to switch to higher-value-added goods. Korea promoted private research and development (R&D) through tax incentives and even initiated public–private joint R&D for larger—albeit riskier—projects. This intensification of R&D expenditure and higher education in Korea laid the basis for its knowledge-driven growth.

In these aspects, China seems to have been closely following the East Asian Consensus. First, China has followed the example of Korea and Taiwan in emphasizing export orientation, with some protection for local producers (Lee et al., 2005). Second, the similarity is clear not only in terms of the micro interventions listed in Part A but also in the emphasis on the elements missing from the Washington Consensus, such as a technology policy and a higher education revolution. China has been strongly pushing for more R&D expenditure, finally reaching the 1 per cent ratio in 2000. Currently, R&D expenditure has reached more than 1.7 per cent, much earlier than other middle-income countries. In terms of the tertiary education enrollment ratio, China began in 1990 at a much lower level of 3.4 per cent compared with the 20 per cent average of nine middle-income countries. However, by 2003, the figure reached 17 per cent, a value closer to or higher than that of Brazil, Costa Rica and Mexico (Table 6 in Lee, 2006). This rapid progress is related to the higher education revolution and the 20 per cent increase in the number of college students every year since 1998.

The abovementioned discussion is both a comparative and aggregate-level analysis. In the next section, we suggest a theoretical approach based on Schumpeterian economics. Our focus on firms as the unit of analysis and on technological capabilities is the distinct difference of this study from the other literature on China.
<table>
<thead>
<tr>
<th>A. Elements of the Washington Consensus</th>
<th>South Korea</th>
<th>Taiwan</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1. Macroeconomic stabilization</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Fiscal discipline</td>
<td>Yes, generally</td>
<td>Yes</td>
<td>Yes, generally</td>
</tr>
<tr>
<td>2. Redirection of public expenditure to health, education and infrastructure</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes, generally</td>
</tr>
<tr>
<td>3. Tax reform, broadening the tax base and cutting marginal tax rates</td>
<td>Yes, generally</td>
<td>Yes</td>
<td>Yes since 1994</td>
</tr>
<tr>
<td>4. Unified and competitive exchange rates</td>
<td>Yes, except for limited periods</td>
<td>Yes</td>
<td>Yes, since 1994</td>
</tr>
<tr>
<td>5. Secure property rights</td>
<td>Yes, except early periods</td>
<td>Yes, generally</td>
<td>Mixed</td>
</tr>
<tr>
<td>A2. Privatization, deregulation and liberalization</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Deregulation</td>
<td>Limited</td>
<td>Limited</td>
<td>Limited</td>
</tr>
<tr>
<td>7. Trade liberalization</td>
<td>Limited until the 1980s</td>
<td>Limited until the 1980s</td>
<td>Limited until 2002</td>
</tr>
<tr>
<td>8. Privatization</td>
<td>No; many SOEs in the 1950s and 1960s</td>
<td>No; many SOEs in the 1950s and 1960s</td>
<td>Partly no; SOEs still important</td>
</tr>
<tr>
<td>9. Elimination of barriers to direct foreign investment</td>
<td>DFI heavily restricted</td>
<td>DFI subject to state control</td>
<td>DFI regulated in some sectors</td>
</tr>
<tr>
<td>10. Financial liberalization</td>
<td>Limited until the 1980s</td>
<td>Limited until the 1980s</td>
<td>Limited until the 1980s</td>
</tr>
<tr>
<td>B. Elements missing from the Washington Consensus</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Export promotion ± import tariffs</td>
<td>Yes, very strong</td>
<td>Yes</td>
<td>Yes, very strong</td>
</tr>
<tr>
<td>12. Technology policy for upgrading (public, in-house R&amp;D and public–private R&amp;D)</td>
<td>Yes, since 1970</td>
<td>Yes, since the 1980s</td>
<td>Given priority since the mid-1990s</td>
</tr>
<tr>
<td>13. Higher education revolution (doubling of number of college students)</td>
<td>Yes, since the 1980s</td>
<td>Yes, generally</td>
<td>Yes, since the mid-1990s</td>
</tr>
</tbody>
</table>

Sources: Lee (2006); Part A for Korea and Taiwan is from Rodrik (1996: Table 3); China and Part B are by the author.
Schumpeterian Economics of Catch-Up: Our Theoretical Framework

The “Beijing Consensus” (*Beijing Gongshi*) is a very popular phrase in China, as popular as the word “catch-up” (*zhuigan*). Both terms reflect the Chinese desire for their country to progress economically. Economic catch-up by a latecomer country is about narrowing the gap in production and income vis-à-vis a leader country. In this sense, China is definitely and significantly catching up.

Hu (2009) computed China’s share in the world’s total GDP using the 2000 constant dollar price. The computation result shows that China’s share was only 1.04 per cent in 1980, ranking 10th in the world, but it rose to 1.86 per cent in 1990 and then to 3.78 per cent in 2000, ranking sixth in the world. China’s share in 2005 was 5.02 per cent, ranking fourth; it is expected to rank second in 2010. China’s rank in terms of its share in world trade also increased from 27th in 1978 to second place in 2005, although a large portion of its exports is products of foreign-invested companies operating within China.

The long history of the word “catch-up” dates back to the famous work of Gerschenkron (1962). His article published in 1951 on “Economic development in historical perspective” describes the economic growth of Continental Europe in the late nineteenth century as it caught up with the UK as the forerunning country. The influential article of Abramowitz (1986) made the concept of catch-up part of the standard vocabulary of development economists (Mazzoleni and Nelson, 2007). Since then, numerous works have followed, but it was the Schumpeterian economists who provided more theoretical skeleton to the empirical works on the catch-up phenomenon.

The work of Nelson and Winter (1982), a great revival of evolutionary economics with its explicit linkages to Schumpeter’s insight, stimulated research that applies this line of thought to catch-up, such as the studies of Verspagen (1991), Fagerberg and Godinho (2005), Lee (2005), Mazzoleni and Nelson (2007) and, most recently, Nelson (2008a, b). A distinctive feature of these works by Schumpeterians is the emphasis on innovation and technological capabilities as the enabling factors of catch-up. Fagerberg and Godinho (2005) and Mazzoleni and Nelson (2007) noted that in the 1960s and 1970s, the main factor supporting catch-up was capital accumulation. However, in the 1980s and 1990s, the accumulation of technological capabilities was more relevant. At present, only the countries that have invested heavily in the formation of skills and R&D infrastructure seem to be capable of catching up; those that did not tend to fall farther behind. An econometric study by Lee and Kim (2009) found that whereas secondary education and political institutions are important for lower income countries, policies facilitating technology development and higher education seem to be more effective in generating growth for upper middle- and high-income countries but not for lower income countries.

With its R&D/GDP ratio reaching above 1.7 per cent, China is fast advancing in its innovation and knowledge as the key engines of its growth, replacing the FDI of earlier periods. This is verified by an econometric study using provincial data of Jin et al. (2008). Although innovation has been the main source of economic progress in the West, learning is also considered important for catch-up in the rest of the non-West latecomers (Amsden, 1989). In this light, the institution for local learning and access to foreign knowledge bases have been recognized as the critical factors for catch-up. In addition, access and learning modes are becoming more important due to the tendency of developed economies to enforce their intellectual property rights on developing countries. Therefore, our approach is
different from the view of national competitive advantages by Porter (1990), which places
less emphasis on learning and access to foreign knowledge and on the latecomer
economies. In contrast, our approach shares a common insight with the concept of
“leverage” used in Zeng and Williamson (2007) and Mathews and Cho (2000), and
acknowledged in World Bank studies, particularly that of Chandra (2006). This is our point of
departure for the analysis on the case of China: we focus on the unique and innovative
aspects of China’s modes of learning and access to foreign knowledge bases.

3. The Chinese Model of Catch-Up

Comparison with Korea and Taiwan

Korea and Taiwan are the two most successful catch-up economies in the world. These two
countries share commonalities, but a number of important distinctions still exist. The
difference in the role of big vs. small firms in each economy is often cited. Korea is
dominated by several giant firms and Taiwan by a large number of smaller firms (Saxenian
and Hsu, 2001). The difference in firm-size structure of the two economies is replicated in
their catch-up strategies and learning modes (Park and Lee, 2006). Seemingly, there are
two catch-up pathways: the one taken by Taiwan and that taken by Korea. Variations are
possible, such as the pathway taken by Southeast Asia, the Singapore pathway
characterized by more roles played by FDI (Hobday, 2000) and combinations of these
variations.

The Korean pathway is led by several large firms that are nationally owned and
independent from multinational corporations (MNCs). During the 1970s, which is the early
stage of the Korean pathway, private firms relied on licensing and received assistance from
government research institutes (GRIs), obtained R&D results freely or at a low cost, and
learned by working in FDI or original equipment manufacturer (OEM) firms (Lee, 2005).
Eventually, they consolidated their in-house R&D capacities and emerged as technology
leaders.

The Taiwanese pathway was initially led by a large number of SMEs that were more or
less integrated with MNCs. During the early stage of this pathway, private firms started out
as OEM contractors for MNCs and eventually integrated with the global production network
(GPN). This helped them access new knowledge and upgrade to a higher tier in the GPN
(Ernst and Kim, 2002). A number of firms became successful and ultimately became large-
cale, own-brand manufacturing (OBM) firms via own design manufacturing (ODM).
However, these big firms, such as Acer, still maintain a great deal of subcontracting with
MNCs. Sectors that require greater capital and risk receive assistance from GRIs or create
new spin-off firms from them to obtain sources of new knowledge.

Given the previous discussion, it would be interesting to see which pattern will prevail in
other rapidly catching up countries such as China. Generally, China seems to be following a
third model that includes the elements of the Korean and Taiwanese models and even the
Southeast Asian model, which has demonstrated more reliance on FDI. China boasts of a
relatively large number of big firms such as Lenovo (which acquired the personal computer
business of IBM), Haier (the largest refrigerator maker in the world), Changhong, TCL,
Konka, Huawei and other firms. These are brand leaders in the Chinese markets that have
successfully competed against MNCs, although they are not yet powerful enough to
command a strong design capability. These firms mostly undertake the final assembly and may go along the path of Korean *chaebols*. In reality, a number of these firms are similarly leapfrogging straight into OBM without engaging in ODM. In contrast, SMEs in China have been developing a close integration with smaller or larger MNCs from neighboring economies in Asia and the West. Chinese SMEs seem to be following the Taiwanese or Southeast Asian path of gradual catch-up with the intermediate stages of OEM, ODM and OBM.

The size and complexity of China necessitates that its economy adhere to two or more model types as a combination of large companies, smaller companies and FDI firms. However, being aware of the other aspects of China’s development that can be considered as more than just a combination of existing models or companies is also important. In what follows, we explore further the different access strategies China is experimenting on in the quest for economic catch-up.

**Parallel Learning by Trading Market for Technology**

Realizing the attractiveness of its market size and the bargaining power associated with this, the Chinese government has actively approached multinational suppliers to engage in technology transfer and joint venture (JV) negotiations, adopting a purposeful strategy of “trading the market for technology.” According to Yu Weixiang, a director in the Ministry of Foreign Economics and Trade, more than 80 per cent of FDI in China since 1978 has been based on the principle of “trading the market for technology,” especially in the automobile, chemical and electronics industries (Chen and Yue, 2002). The strategy of trading the market for technology made its first appearance in the automobile industry during the early 1980s.²

Although it has not been entirely successful, there are cases in which this strategy worked and contributed to technological catch-up. Mu and Lee (2005) explained that the telecommunications equipment industry is an excellent example, such as the case of Shanghai Bell, a JV established in 1984 with the Bell telephone company. Mu and Lee (2005) observed that China took advantage of its large market size to pressure the foreign partner to transfer core technology to the local partner. Shanghai Bell and other joint venture establishments fostered the diffusion of technological know-how on digital telephone switches across the country. Thus, indigenous manufacturers emerged and began to compete directly with JVs in the mid-1990s, initially in rural markets and subsequently in urban markets. Starting from a 10.6 per cent market share in 1992, the four indigenous manufacturers led by Great Dragon, Datang, Zhongxing and Huawei held 43 per cent of the digital switch market by 2000 (Mu and Lee, 2005: Figure 1).

In this catch-up process, FDI firms contribute by diffusing knowledge and personnel to Chinese firms while the Chinese learn from them. This process is called “parallel learning” (Eun *et al.*, 2006). A similar diffusion of knowledge also occurred in Southeast Asian countries, but China was more successful in turning diffusion into the promotion of indigenous companies.

The preceding overview indicates that in terms of catch-up in telephone switch technology, China skipped a stage or “leapfrogged,” a term used by Lee and Lim (2001). China had limited experience in developing and producing electro-mechanical switches, but it skipped the development and production of analogue electronic switches to jump directly to digital automatic switch production (Shen, 1999). Similar phenomena are taking place in other sectors. Chinese authorities regard a JV as a channel through which learning about technology can take place. Thus, even after its entry to the World Trade Organization, the Chinese government has made no commitment to lift the cap on foreign shares in JVs in key industries, including the automobile, telecommunications and banking sectors. This continuing restriction on foreign shares is in sharp contrast to the market opening exemplified by the lowering of tariffs now at about 10 per cent (or less) on average, which is lower than the average in most developing countries.

Strategy of Forward Engineering

China has successfully reared some national champion firms in high-technology sectors by exploiting their own scientific knowledge base. This is exemplified by Lenovo, Founder, Tsinghua Tongfang and Dongruan. Lenovo, Founder and Tsinghua Tongfang have occupied the top three spots as the leading PC makers in China, at least since the early 2000s. Dongruan is the first Chinese software company to be listed on the stock market. These firms have all been established by and affiliated with academic institutions. Eun et al. (2006) designated them as academy-run enterprises (AREs). AREs are widespread in China. More than 4,800 firms are affiliated with Chinese universities (Ministry of Education, 2004). Furthermore, about 40 AREs are listed on the stock markets in Mainland China and Hong Kong. Table 2 shows a more systemic assessment of the importance of AREs in the Chinese economy. Although their share in the national economy is still minimal, their importance in key high-tech regions, such as Beijing and Shanghai, is substantial. In Beijing, the size of AREs is already larger than that of the private enterprise sector in terms of sales revenues, and their size is about 17 per cent of the foreign-invested enterprise (FIE) sector in terms of sale revenues.

The direct involvement of academic institutions in industrial business is called “forward engineering” (Lu, 2000; Eun et al., 2006). In the “reverse engineering” strategy, latecomer firms acquire technological principles by conducting autopsies on final (typically imported) products. Reverse engineering is a bottom-up mode, whereas forward engineering is a top-down mode of technological development, in which the creators (academic institutions) who already possess scientific knowledge further process nascent knowledge until it can be applied to commercial uses. Lu (2000) and Eun et al. (2006) pointed out that forward engineering is an inherently Chinese characteristic that differentiates China from other East Asian countries. Taiwan and Korea have rarely exploited their academic institutions for technological development; the main role of academia is to supply engineers to local firms. In contrast, Chinese universities and research institutes, such as those under the banner of the Chinese Academy of Sciences, have played an active role in commercializing new technologies using the results of their research projects.

The Chinese central government has recently initiated several ambitious projects to strengthen the country’s knowledge base. The “211 Project” proposed in the mid-1990s focuses on strengthening the research and teaching capability of 100 key universities
<table>
<thead>
<tr>
<th>Province</th>
<th>URE Revenue</th>
<th>URE Employee</th>
<th>URE/total industry (%)</th>
<th>URE/FIEs (%)</th>
<th>URE/domestic private (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>517.46</td>
<td>61,772</td>
<td>7.2</td>
<td>5.3</td>
<td>16.8</td>
</tr>
<tr>
<td>Shanghai</td>
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<td>23,926</td>
<td>0.5</td>
<td>0.9</td>
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</tr>
<tr>
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<td>11,033</td>
<td>0.3</td>
<td>0.2</td>
<td>1.1</td>
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<tr>
<td>Jiangsu</td>
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<td>27,095</td>
<td>0.2</td>
<td>0.4</td>
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</tr>
<tr>
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<td>0.5</td>
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</tr>
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<td>14,882</td>
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<td>0.8</td>
<td>3.4</td>
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<td>0.2</td>
<td>0.8</td>
</tr>
<tr>
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<td>16,434</td>
<td>0.9</td>
<td>1.4</td>
<td>12.4</td>
</tr>
<tr>
<td>Guangdong</td>
<td>27.08</td>
<td>9,864</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Heilongjiang</td>
<td>25.39</td>
<td>8,094</td>
<td>0.5</td>
<td>0.6</td>
<td>7.0</td>
</tr>
<tr>
<td>National total</td>
<td>1,071.229</td>
<td>289,429</td>
<td>0.4</td>
<td>0.4</td>
<td>1.3</td>
</tr>
</tbody>
</table>

nationwide. “Invigorating the Country through Science and Education Strategy” (KejiaoXingguo) is an initiative by ex-President Jiang Zemin and was continued by his successor President Hu Jintao. The project aims to increase the spending on education from 2.79 per cent to 4.0 per cent of GDP during the next five years (2006–2010).

Partially due to the efforts of the government, China’s scientific capability has enhanced significantly in the last decade. This can be verified by looking into the major countries (identified by the address of author’s affiliation) that participated in the production of research papers published in top journals (i.e. top 10 journals in terms of “impact factor” in each field) in three fields, namely, information technology (IT), biomedical technology (BT) and nanotechnology (NT)). As shown in Table 3, China has successfully caught up with advanced countries since 2001 to be among the top five in all three high-tech fields.

Strategy of International M&A and Going Global

Until the 1990s, the Chinese outward direct foreign investments (hereafter called ODI) were highly regulated compared with the major source countries for FDI. In fact, ODI was generally discouraged by the central authorities. However, a significant shift in policy was made at the Chinese Communist Party’s 16th Congress in 2002 when the Premier announced a new strategy for encouraging Chinese companies to “Go Global” (zouchuqu: Go Outside) by investing overseas. Several important measures were introduced by the government in 2004 and 2005. The introduction of these new measures contributed to a rapid increase in Chinese ODI. As shown in Table 4, the annual flow of Chinese ODI, excluding the financial sector, surged to US$43.3 billion in 2009 (which is as large as half of the inward FDI) from a mere US$2.7 billion in 2002. By the end of 2005, more than 6,000 Chinese enterprises invested abroad. Additionally, the announced M&A cases of Chinese companies abroad also increased; the volume of transactions involving Chinese buyers and international targets jumped from US$2 to US$3 billion (offer value) in 2003 and 2004 to almost US$23 billion in 2005.

What are the motivations behind the dramatic change in government policy toward ODI? In the macroeconomic dimension, it can be explained as a consequence of high domestic saving rates, global financial imbalance and efforts to cool investment demand at home (Hess, 2006). China had accumulated US$870 billion of foreign reserves by March 2006. Currently, it has the largest reserves in the world, even surpassing Japan. Thus, it is time for China to loosen its tight controls over foreign exchange and the outflow of capital. However, Woo and Zhang (2006) observed that the policy change may also reflect a desire on the part of the Chinese government to create world-class companies and brands.

The literature in this field offers several standard explanations about the driving forces of ODI among developing countries. Dunning et al. (1997) identified two waves of ODI of developing countries at different stages of the investment development path. The United Nations Conference on Trade and Development (UNCTD, 2005) lists six driving forces of outward FDI of firms from developing countries. In summary, these theories suggest the presence of three major motivations for engaging in ODI: resource seeking, market seeking

3 The measures decentralized the approval of ODI projects to local authorities.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country (Percentage)</th>
<th>Country (Percentage)</th>
<th>Country (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IT</td>
<td>BT</td>
<td>NT</td>
</tr>
<tr>
<td>1</td>
<td>USA (31.7)</td>
<td>USA (46.9)</td>
<td>USA (43.7)</td>
</tr>
<tr>
<td>2</td>
<td>CHINA (14.0)</td>
<td>ITALY (6.3)</td>
<td>ENGLAND (9.4)</td>
</tr>
<tr>
<td>3</td>
<td>SPAIN (6.4)</td>
<td>GERMANY (6.1)</td>
<td>CHINA (7.8)</td>
</tr>
<tr>
<td>4</td>
<td>JAPAN (6.3)</td>
<td>TAIWAN (5.2)</td>
<td>GERMANY (7.3)</td>
</tr>
<tr>
<td>5</td>
<td>FRANCE (5.9)</td>
<td>ENGLAND (4.8)</td>
<td>CANADA (4.9)</td>
</tr>
<tr>
<td>6</td>
<td>ITALY (6.7)</td>
<td>JAPAN (4.7)</td>
<td>JAPAN (4.7)</td>
</tr>
<tr>
<td>7</td>
<td>CANADA (5.6)</td>
<td>SOUTH KOREA (4.7)</td>
<td>AUSTRALIA (4.5)</td>
</tr>
<tr>
<td>8</td>
<td>ENGLAND (5.3)</td>
<td>CANADA (4.4)</td>
<td>FRANCE (4.0)</td>
</tr>
<tr>
<td>9</td>
<td>TAIWAN (4.9)</td>
<td>CHINA (4.3)</td>
<td>SOUTH KOREA (2.8)</td>
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<tr>
<td>10</td>
<td>SOUTH KOREA (4.0)</td>
<td>FRANCE (3.7)</td>
<td>SPAIN (2.8)</td>
</tr>
<tr>
<td>11</td>
<td>GERMANY (3.9)</td>
<td>ISRAEL (2.4)</td>
<td>NETHERLANDS (2.4)</td>
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<tr>
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<td>SPAIN (2.1)</td>
<td>SINGAPORE (2.3)</td>
</tr>
<tr>
<td>13</td>
<td>INDIA (2.9)</td>
<td>NETHERLANDS (2.0)</td>
<td>SWITZERLAND (2.3)</td>
</tr>
<tr>
<td>14</td>
<td>SWITZERLAND (2.5)</td>
<td>SINGAPORE (2.0)</td>
<td>ITALY (2.2)</td>
</tr>
<tr>
<td>15</td>
<td>AUSTRALIA (2.3)</td>
<td>SWEDEN (1.8)</td>
<td>TAIWAN (2.1)</td>
</tr>
</tbody>
</table>

*a Total number of papers included in the top 10 journals in the respective year. Numbers in parentheses are shares in percentage of each country.

Source: Authors' calculation from the ISI Web of Science.
and capability (asset) seeking. Hess (2006) also grouped China’s ODI into three similar categories: to procure natural resources, to secure market access, and to acquire brands and distribution networks.

Among the three categories, China had focused on the former two until the new “going global” strategy was launched in 2004. Recently, several M&As targeting foreign companies in the manufacturing sector have been launched by large companies that seek managerial know-how, technology, brands and market access in China (Zhang, 2005). Particularly, the acquisition of globally recognized brands has been a crucial factor in many recent deals. China is beginning to recognize the importance of brand names but is also cognizant of the fact that it will take a long time and great effort to build brands of its own. One quick way of achieving this is the acquisition of foreign brands. Moreover, with the recent recognition of the limited success of the “trading market for technology,” international M&A is being considered as an alternative.

A well-known case is Lenovo’s purchase of the PC division of IBM in 2004. Lenovo was China’s largest PC maker, and through the deal, Lenovo suddenly became the world’s third largest PC manufacturer after Dell and HP. Similarly, TCL acquired a German company (Schneide) and established a JV with a French company (Thomson) to obtain brands and ready-made distribution channels. Haier tried unsuccessfully to buy the Maytag and Hoover brands because its own brand was not successful in the US market.

The move by BOE, a Chinese cathode ray tube (CRT) maker, to acquire the Korean company Hynix’s TFT-LCD division, HYDIS, for US$380 million had more to do with the technology than the brand. As a CRT maker, BOE had been attempting for a long time to acquire TFT-LCD technology by inviting foreign partners to enter into ventures with the company. However, after unsuccessful deals with a Japanese company, BOE turned to M&A and finally bought HYDIS in 2003. After the acquisition of HYDIS, BOE built a fifth-generation TFT-LCD panel line in Beijing. At present, BOE plans to build sixth- and seventh-generation lines within the next five years. HYDIS’s technology and know-how played a significant role in the development process. For instance, in 2006, more than 120 former HYDIS Korean engineers worked at BOE sites in Beijing (Jee et al., 2005: 221–222). Similar cases of targeting foreign technologies can also be cited: Geerly’s acquisition of Volvo, D’rong’s acquisition of a German passenger airplane maker (Fairchild-Dornier) and Shanghai Automobile’s acquisition of a Korean auto-maker, SsangYong.

| Table 4. Outward and inward direct investment from China (in billion US dollars, realized) |
|---------------------------------|---|---|---|---|---|---|---|---|
|                                 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Annual ODI outflow              | 2.7  | 2.9  | 5.5  | 12.3 | 21.2 | 18.7 | 40.7 | 43.3 |
| Annual FDI inflow               | 52.7 | 53.5 | 60.6 | 60.3 | 63.0 | 74.8 | 92.4 | 90.0 |
| ODI/GDP (%)                     | 0.19 | 0.17 | 0.28 | 0.54 | 0.78 | 0.53 | 0.90 | 0.88 |
| ODI of Korea                    | 4.0  | 4.7  | 6.5  | 7.1  | 11.6 | 21.4 | 22.9 | 19.4 |
| Growth rate (ODI by China)      | –60.9| 5.6  | 93.0 | 123.1| 72.5 | –11.6| 117.6| 6.4  |

*Note: Excluding the investment in the financial sector.
Sources: Ministry of Commerce, *Statistical Bulletin of China’s Outward Foreign Direct Investment* (various years); China Statistical Abstract (various years); Korea Ex-im Bank.*
4. Current Challenges and Assessing the Prospect of the Beijing Model

The previous section elaborated on several firm-level strategies unique to China in comparison with Korea or Taiwan. The question of whether or not these broader sets of technological learning strategies pursued by China will be able to reduce the likelihood of falling into the “OEM trap” and be able to speed up the progress toward the OBM stage remains. The answer to this question is connected to the issue on the role of national economic policies and their interactions with firm-level strategies. This section deals with these issues first through an in-depth discussion of the nature of the challenges faced by Chinese firms. We then suggest several reasons for the possibility of taking cautious optimism for the future of China.

Nature of the Challenges in a Comparative Perspective

China’s experimentation with several unique catch-up strategies aims to create national champions with their own brands in the local markets and to move away from the traditional “OEM trap” (Lee, 2005). OEM is a specific form of subcontracting wherein finished products are made to the precise specification of a particular buyer, who then markets the products under its own brand name through its own distribution channels (Hobday, 2000). In Taiwan and Korea, OEM accounted for a significant share of electronic exports during the 1970s, 1980s and even 1990s (Hobday, 2000: 133). Several studies, such as Hobday (2000) and Cyhn (2002), identified OEM as one of the chief institutional mechanisms used to overcome the barriers to enter into and facilitate technological learning. The OEM trap implies that latecomer firms find OEM to be an easy way of catching up at the early stage of economic growth but they will soon face difficulties when the forerunning firms move their production to other lower wage production sites (Lee, 2005). Therefore, unless these companies could eventually produce and sell their own design and brands, they would remain in the low-value-added segments. Thus, these companies and their countries would not move on to the status of rich countries. Rasiah (2006) also noted the limitations exhibited by Malaysia’s rapid export expansion of low-value-added goods.

The eventual transition to OBM requires a strong design capability or an ODM interim stage, as the Taiwanese experience suggests. However, acquiring the design capability is not easy because it is not available in the markets. Therefore, design capability remains an important challenge for Chinese companies. Nevertheless, large Chinese companies seem to move along the Korean pathway in jumping from the OEM stage directly to the OBM stage. Unless they succeed, these companies may experience a fate similar to the Korean companies that went ahead with their own brands without sound design capabilities. For instance, after their initial success in the 1980s, Korean car producers, such as Hyundai Motors, ran into serious difficulties during their export campaigns to the US market (Guillen, 2001) largely because of their lack of design capability. It was only in the late 1990s onward did these Korean car producers regain meaningful momentum in the US market. This example demonstrates the risk of exporting one’s own brand without solid design capability. However, sticking to OEM alone is not a long-term solution either (Guillen, 2001).

The Chinese strategy of resorting to international M&A to acquire brand and technology (patents) may be costly, as demonstrated by the case of LG’s acquisition of Zenith. Many of
the key employees of Zenith quit after the M&A by LG. Moreover, the tacitness of knowledge tends to limit the degree of effective learning after M&A. The strategy is also costly because China’s aggressive ODI seems to be backed by strong government incentives, such as cheap loans from state banks.

Another bottleneck for China could be the process of localizing key capital goods (i.e. core parts and components) industries, which is necessary if these industries would like to move beyond the simple assembly of final goods with imported parts and supplies. In this regard, the Korean experience indicates the difficulty of promoting and localizing the capital goods industries (Kim and Lee, 2008). Korean exports in the last four decades have continued to rely on the importation of core capital goods from Japan.

Another interesting case suggesting the limitations of technological capabilities of local Chinese companies is the dynamic stories of catch-up and retreat in the mobile phone market in China, as analyzed by Lee et al. (2009). In the 1990s, foreign phones had taken almost 100 per cent of the market with Motorola, Ericsson and Nokia taking up almost 80 per cent of the market with their advanced technology and brand names. It was only in the late 1990s that local brands of mobile phones emerged in the market, such as Kejian, Konka, Bird and TCL. Since then, the market shares of these indigenous makers have increased, claiming more than half of the market in 2003 and demonstrating a huge catch-up by the Chinese firms. However, after peaking in 2003, the shares of indigenous makers began to decline again, slipping to 34 per cent in 2007. This pattern of catch-up and retreat by Chinese makers is in contrast with the catch-up of Korean makers that did not experience such a setback during the course of their catch-up (Lee et al., 2009).

Assessing Some Promising Signs

Although the abovementioned challenges are formidable, we also note several promising signs for China. First is the increasing number of patent applications, which seems to reflect the enhanced innovation capability of Chinese firms. In this situation, one important comparative criterion is whether or not China is achieving the three important “catch-ups” that have also been observed to be present in Japan, Korea and Taiwan in the past. The “three technological catch-ups” discussed in Lee and Kim (2010) are whether or not (1) residents’ patenting is catching up with the non-residents’ patenting in a host country, (2) regular patents are catching up with utility model patents, and (3) corporate patenting is catching up with individual inventors’ patenting. In Korea, corporate patents first caught up with individual patents as early as 1986, and the number of utility model patents caught up with that of invention patents in 1989. Ultimately, the number of domestic patents took over that of foreign patents in 1993. This pattern in Korea indicates strong R&D capabilities led by large indigenous corporations in Korea. These three patterns are important checkpoints as no other latecomer economies other than Japan, Korea and Taiwan have achieved such catch-up. In typical latecomer economies, the majority of the patents are filed by non-residents or foreigners (Lee and Kim, 2010).

These three kinds of catch-up all occurred in China in the 2000s (Lee, 2011). In terms of the number of patent applications, the share of domestic inventors became larger than that of foreigners in 2003, with the former filing over 50,000 applications (Figure 2 of Lee, 2011). In 2004, the number of regular invention patents took over that of utility model patents. In
2007, the number of patent applications by corporations overtook that of individual inventors, signifying the importance of corporate innovation activities.

Although these are promising signs at the aggregate levels, there are other supporting evidence for the rapid rise of big businesses and their capabilities in China.

First, there are many cases of Chinese indigenous firms upgrading to the status of OBM and globally competitive companies. In consumer electronics goods, the case of Konka as analyzed in Xie and Wu (2003) and Mathews (2008b) can be cited. Konka started as an OEM contractor and began to produce its own branded products for the domestic market in 1987, competing against imported brands. By 2007, Konka boasted of a 24 per cent market share of CTVs in China and became a major player in diverse consumer electronics goods (Xie and Wu, 2003; Mathews, 2008b). The case of Konka presents several of the features observed in Korea and Taiwan, particularly upgrading their capabilities from OEM to ODM and then to OBM.

At present, China boasts of a number of similar cases in many sectors. According to a Chinese source book (Editorial Committee of the Industrial Map of China (ECIMC), 2005), Chinese companies are successfully competing against MNCs, at least in the domestic market. For example, in the computer sectors (i.e. notebook, server and PC), Lenovo, Dongfang and Founder are among the top 10 brands. In the soft drinks sector, Wahaha, Xurisheng and Wanglaoji are the Chinese companies among the top 10. In the home audio-visual sector, Haixin, Changhong, Kongka and Chuangwei-RGB are among the top four.

Furthermore, an important study by Zeng and Williamson (2007) showed that some Chinese companies are not just leaders in the domestic market but also global players across a wide spectrum of industries. The China International Marine Container Group dominates the global shipping container industry with more than 55 per cent market share. This company is far from being low-end and has gradually penetrated every segment of the container market. This Chinese strategy is called "cost innovation," wherein the company uses low costs to offer specialty products at dramatically lower prices, turning itself into a volume business. In addition, cost innovation is not based on cheap wages but on applying a new product and process innovation to low-end goods. In learning how to innovate, the company has relied on various channels, such as licensing and many M&As of companies in Korea and Europe.

These observations on rising Chinese companies are in sharp contrast to the gloomy description of Chinese companies in the 1990s by Nolan (2002), who pointed out that China did not have any company in the UK R&D scoreboard, Financial Times 500 and Business Week 100 brands, and only had 10 companies in the Fortune Global 500 at the time of his study. China's recent performance in these criteria reveals a radical change. Table 5 shows that China currently has 23 Financial Times 500, 3 in the Top 300 UK R&D scoreboard and, most impressively, 46 Fortune 500 companies. Business Week 100 is the sole category that Chinese companies have failed to break through. China currently commands the third largest number of Fortune Global 500 companies next to the USA and Japan, and surpassing all the major European countries.

Nolan (2002) and Zeng and Williamson (2007) treated different samples of companies in their studies; thus, the right assessment of the performance of Chinese companies may lie somewhere in between. However, the increasing number of success stories and the abovementioned figures serve as a powerful counterargument against the belittling of the Chinese companies. They also provide evidence that Chinese companies do not remain simply as low-end or OEM producers. At present, they are not only upgrading to
Table 5. Number of global companies by country, 2000–2010

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>231</td>
<td>184</td>
<td>169</td>
<td>181</td>
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<td>39</td>
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<td>42</td>
<td>41</td>
<td>35</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>No. of companies in UK R&amp;D Scoreboard (no. in top 300 by R&amp;D expenditure)</td>
<td></td>
<td></td>
<td></td>
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<tr>
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<td>509</td>
<td>542</td>
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<td>220</td>
<td>244</td>
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<td>7</td>
<td>9</td>
<td>12</td>
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<tr>
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<td>–</td>
<td>–</td>
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<td>63</td>
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<td>41</td>
<td>75</td>
<td>88</td>
<td>46</td>
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<tr>
<td>Business Week’s list of the world top 100 brands</td>
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Notes: The listed number of companies in the UK R&D Scoreboard varies by year. Data in parentheses are the number of companies belonging to the top 300 by R&D expenditure.

Sources: http://www.innovation.gov.uk/rd_scoreboard/?p=46
http://money.cnn.com/magazines/fortune/global500/
http://specials.ft.com/ln/specials/global_ft500004.htm
http://www.businessweek.com/interactive_reports/best_global_brands_2009.html
http://specials.ft.com/ln/specials/global_ft500004.htm

manufacturing higher end brand products but also leapfrogging to emerging technologies, as demonstrated by the case of BYD, a global producer of rechargeable batteries for electric vehicles.
Broader Dimensions: State Activism, Firm-Level Strategies and the Size Factor

Catching-up performance at the firm level is inextricably linked to the policies implemented by the government. Over the years, the Chinese government has implemented a series of policies to enhance science and technology capability. The historic “open-door policy” declared in the late 1970s was also aimed at gaining access to foreign technology and foreign management methods. China has periodically announced the main directions of the reform through the decisions of the State Council and of the Central Committee of the Party, particularly the March 1985 Decision on the Reform of the Science and Technology Management System and the May 1995 Decision on Accelerating Scientific and Technological Progress (IDRC and the State Science and Technology Commission, 1997). President Hu, since his inauguration in 2003, has emphasized the so-called “indigenous innovation” (ZizhuChuangxin), which inevitably necessitates larger investment in the knowledge base. Since then, the Chinese government has supported innovation led by Chinese firms with in-house R&D.

These initiatives are intended to consolidate the national innovation system of China. While these initiatives have been translated into aggregate-level changes highlighted by the increase in the national R&D to GDP ratio, college enrollment ratios, scientific publications and so on, they have also affected firm strategies. Essentially, the elements of specific policies are present in all the three key components constituting the Beijing model. First, parallel learning, which is linked to the policy of trading market for technology, appeared in several policy documents. Second, the origin of URE promotion dates back to the 1995 “joint resolution” by the State Council and the Party. Third, international M&A and going global specifically originated from the 16th Party Congress decision in 2002.

Such state activism affecting firm-level strategies falls within the Asian tradition shared by the neighboring economies. In this sense, we can find several commonalities among Asian strategies that can be summed up as the “BeST (Beijing–Seoul–Tokyo) consensus” (Lee and Mathews, 2010). The BeST consensus identifies private firms and the public developmental agency as the two primary vehicles for latecomer development. However, the specific implementation process has several distinctive Chinese flavors that are associated with its size. For instance, tremendous bargaining power associated with size is an important factor in the trading market for technology strategy, and international M&A strategy is also related to the size of cash power of big corporate sectors. To a lesser degree, the initial success of the UREs is associated with the availability of a large population of educated human capital at lower cost that can also take advantage of the agglomeration economy in college locations.

In any case, one important factor in this regard is the interaction of size and openness, which brings in the power of market competition in the domestic economy (Zeng and Williamson, 2007). Due to the strong inflow of FDI, the domestic market of China has been transformed into one of the most competitive markets in the world; thus, domestic firms surviving in this market cannot help but become highly innovative and competitive. Xie and Wu (2003) emphasized the fact that the huge market serves as the key incentive for local firms to invest in technological learning. Whereas smaller Asian newly industrializing economies (NIEs) rely upon export markets, Chinese firms rely on the domestic market and compete within this market. These findings suggest that the Chinese model may not be applicable to other developing countries (Xie and Wu, 2003). However, this assumption
does not rule out the existence of common elements for catch-up in successful latecomers, that is, learning and access to foreign knowledge.

The Chinese government and firms have tried to obtain access to foreign and new domestic (academia) knowledge, but they can only do so with a better deal, probably owing to their size. However, other developing countries can also try other access channels better suited to their own conditions. Nowadays, countries, whether developed or developing, are all trying to tap more effectively the knowledge pool of academia. Developing countries can also utilize other diverse channels to access foreign knowledge such as licensing, OEM, JVs, M&A, strategic alliance and overseas R&D outposts. The experience of Korea and Taiwan shows that different channels can be relied upon depending on the level of firm capabilities (Lee, 2005).

There are other important initiatives in larger latecomer economies such as China, Brazil and India (Mathews, 2008a). These countries are forging ahead in seeking a new development path powered not by traditional fossil fuels but by new alternative energy sources such as biofuels and other renewable energies. China is known to have great potential in this field and is already the third largest ethanol producer in the world (Mathews, 2008a). Mathews argues that these new initiatives are calling for another “latecomer effect” type of industrial policy to initiate these initiatives.

5. Summary and Concluding Remarks

This paper has taken a Schumpeterian approach to examine the firm-level catch-up strategies in China. We have focused on the strategies for learning and access to a foreign knowledge base. Unique features of the Chinese economy have also been identified such as forward engineering, acquisition of technology and brands by international M&A, and parallel learning from FDI to promote indigenous companies. These features make up the Beijing model as they have not been explicitly adopted by Korea and Taiwan.

These characteristics must be understood in a relative sense. For example, it would be more accurate to say that the Chinese are engaged in both reverse and forward engineering. However, our point is that during the early stage of their catch-up, Taiwan and Korea did not experience the emergence of UREs to the extent that China is experiencing today. In terms of parallel learning from FDI firms, that Taiwan also pursued this goal can be argued, although China is capable of relying on a stronger bargaining power in its negotiations with MNCs. The sheer size of its economy and its attendant cash power enable China to utilize this strategy on a much larger scale.

In general, these strategies are expected to help China achieve a “compressed catch-up” and to avoid some of the risks involved. By following the East Asian sequencing rather than the Washington Consensus, China avoids the risk of the “liberalization trap,” where premature financial liberalization leads to macroeconomic instability. Thus, the current Beijing model seems to be a natural extension of the earlier gradual approach to system transition responsible for China’s early success.

We have also discussed the challenges involved in the Beijing Consensus, such as the difficulty in enhancing design capabilities. With all the challenges faced by China, we can conclude that the Chinese industry will not remain simply as a low-end OEM economy but will rise to the status of high-end or brand producers, as shown by many successful cases and other indicators. If we broaden our perspective beyond the firm-level analysis, we can
see that there are more challenges that China needs to overcome, such as rising inequality, unemployment and corruption. Thus, a more thorough and broader analysis should be conducted in future research, which should also focus on the longer term challenges of sustainable growth and the tension between political authoritarianism and economic prosperity. Given these limitations, this paper contributes a comparative analysis of the firm-level institutional basis of China’s technological catch-up from the theoretical perspective of Schumpeterian economics.

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References


Globalization and Development: Learning from Debates in China

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ABSTRACT

How can a developing country capture the advantages of globalization? In grappling with this question, China has played to its strengths and picked itself up by the bootstraps, though not without mounting signs of apprehension. This case offers clues to what vaults development forward in globalization. Largely overlooked in this search is the range of China’s internal debates. This creative dialogue could help overcome the despair of antidevelopment, a multipronged attack on the whole developmentalist paradigm. Although China’s encounter with globalization is problematic and does not offer a model to be copied, it is a compelling case of a home-grown strategy of transformation, hope and self-confidence, and a large measure of self-determination. In other contexts, the Chinese narrative prompts the question of how to write a fresh script for development within the compass of neoliberal globalization.

How can a developing country capture the advantages of globalization? In grappling with this question, China has played to its strengths and picked itself up by the bootstraps, though not without mounting signs of apprehension. Indeed, many observers are looking to China to find clues to what spurs development in the context of globalization. Largely overlooked in this search is the range of China’s internal debates. This creative dialogue, an interrogation of globalization, could have an exhilarating impact on development studies.

China is surely a special case, but which case is not distinctive? Or free from structural conditions in the global environment? Besides, how could one understand leapfrogging in globalization and development if the largest and foremost national experience with maintaining high-speed economic growth is not taken into account?

Specifically, it is worth turning to China for three reasons: the possibility of resuming its historic pattern as world leader circa AD 500–1000; the immense impact of its political
A developing country that astutely navigates the currents of globalization, China has sustained an annual growth rate above 9% in gross domestic product (GDP) for the last two decades, the highest in the world, and has achieved improved living standards for the majority of its people. In embracing globalization, China, of course, commands unique assets, including 26% of the world’s population (more than the combined total of Latin America and sub-Saharan Africa) and thus a massive domestic market, a sizable domestic savings rate, large-scale foreign investment, a hard-working and inexpensive labor force, and substantial cultural resources. Whereas nearly all studies project that the Chinese economy will surpass that of the United States as the biggest in the world in about 2020, as calculated in purchasing power parity, Chinese government sources indicate that the country’s real per capita GDP is less than US $1,000 (as cited in Ye, 2002, p. 64). According to The Financial Times (London), the real income per head is 15% of the US level (Wolf, 2005, p. 13). Yet, as will be shown in the ensuing pages, severe weaknesses and uncertainties about how to adjust to a changing world order abound.

What then are China’s internal debates over globalization? Buried in this question are more specific issues:

1. Are the globalization debates in China, with its strong economic engine and authoritarian regime, entirely focused on economic globalization, as many outside observers believe?
2. Do the country’s policymakers, academic intellectuals, and nascent civil-society groups share outsiders’ worry about China’s emergence, or ‘peaceful rise’?
3. Insofar as politics in China is dominated by the discursive power of the state, are globalization debates there confined to official transcripts?
4. Thus, are China’s internal debates about globalization really distinctive?

In addressing these questions, it is important to note that with Beijing’s official portrayal of globalization as a win/win situation for building a ‘harmonious society’, China has its own brand of political correctness. Yet authoritarian politics is not fixed and invariant. Although there is increasing freedom of expression in China—apparent, for example, in criticism voiced by academic intellectuals at universities—it is accompanied by stringent restrictions on written dissent. The sharp debates among China’s power holders and the populace are often masked, partly by design and partly neglect or perhaps due to blinders on the outside.

Hence, the main objective in this article is to bring forth voices in the debates prompted by the embedding of globalization in China. Insofar as voicelessness hinders comprehending globalization and jump-starting development, attention should be given to unofficial transcripts that extend beyond state narratives.

This approach is designed to help decenter globalization research, most often produced in the West and then disseminated in the form of traveling paradigms, a major aspect of the reproduction of established ways of thinking. To ferret out the subtleties in evolving processes, emphasis is placed on the interplay of the manifest and latent content of the transcripts, China’s globalizing text and its subtext, as well as between the political elite, dominated by authoritarian conservatives, and a burgeoning political culture.

Another goal here is to stimulate critical responses from other analysts engaged in these debates, thus advancing inquiry into the variability and intricacies of globalization. My aim is to encourage specialists to articulate the specific debates on globalization formulated in multiple
contexts. Researchers could then compare how diverse nodes and their prevailing discourses are similar to and differ from those in China.

Toward these ends, I will draw on my five visits to China (1986, 1988, 2000, 2002, and 2005), one as a guest of the government of the People’s Republic invited to observe and discuss market reforms; the others involved teaching at three universities (Nankai, Fudan, and China Foreign Affairs), lecturing in various venues, and carrying out research. Now, I will summarize—for obvious reasons, without attribution—interviews and discussions (either with assistance by interpreters or in English) with hundreds of people in China: government officials, representatives of international organizations, students and colleagues at universities and research institutes, managers and workers in industry, and internal migrants. I will offer my own understanding of these discourses, and clearly do not have license to represent others.

It will be shown how debates are framed in light of specific processes within the ambit of what I call the ‘globalization syndrome’—that is, in regard to its constitutive elements and rarely the whole structure, which, after all, is a large, abstract force. The debates may thus be directly or indirectly tethered to globalization: for example, although not the ostensible purpose, reshuffling local–national relations definitely is a strategy for reaping globalization’s benefits. Furthermore, aspects of China’s globalization debates overlap with one another but are not identical. They are dynamic and their fluidity marks an indigenous discourse. Yet endogenous features are interlaced with exogenous ones—there can be no stark separation between the internal and external components.

The advent of these framing arrangements in China takes place against a backdrop of antidevelopment: the multipronged attack on the basis of the whole developmentalist paradigm. In this context, the debates may be divided into three domains: material power, institutions, and ideology. In the first, the frame concerns the interactions between inclusiveness and exclusiveness; the second, the nexus of status and identity; and the third, globalism and nationalisms. After taking into account calls for a retreat from developmentalism, let us examine a turn toward another way of conceptualizing the issues, in this case grounded in China. Finally, I want to reflect on the extent to which the framing discourses are interrelated and on the openings that the Chinese narrative may provide.

**Antidevelopment**

Development theory has come on hard times. This field arose at a particular historical moment, the onset of the Cold War, and soon became a growth industry. A motivating force was to know the terrain of the presumed enemy, including in newly decolonized countries. Amply funded, the outpourings of development studies from think-tanks, universities, and governmental and intergovernmental agencies have been massive. To fast-forward the story, the end of the Cold War meant that development theory lost its original raison d’être. The halcyon times came to a halt by 1989. Historically constituted, development theory reached a cul de sac.

Many policymakers and policy intellectuals have found successive theories—modernization, dependency, Marxism, and so on—to be useful. This mood coincides with the postmodern deconstruction of grand theory, pilloried for preaching about universalisms, including narratives about the structured process of development. So, too, postcolonial sensibilities draw attention to differences and bolster reservations about building models of development.

Numerous intellectuals specializing in development have become atheoretical, preferring to just get on with it. They either migrate to other fields of study or seek to disaggregate
development, focusing on single problems such as privatization, or simply ‘projects’ like housing or water in a particular locale. This move entails prescribing piecemeal solutions and conceptualizing the structural challenges of development as matters of sheer management. Closely related is a displacement toward the kind of institutionalist analysis that seeks to fix problems while paying scant attention to the foundations that underpin them. In some cases, the problematic is shifting toward security and the concrete institutions that would underwrite it, for development requires peace and a measure of stability (Duffield, 2001).

Feeding into this current is disillusionment with the stagnation and corruption in the Third World, much of it tied to interests in the West and its perspectives on development. Mindful of this tendency, some cultural theorists regard development as an ideology of domination and call for more critical reflection on the production of knowledge (Escobar, 1995, p. 216 and passim; Eagleton, 2004). And as the late Claude Ake, one of Africa’s leading political economists, put it: ‘[Development] . . . was the ideology by which the political elite hoped to survive and reproduce its domination’ (Ake, 1996, p. 7). He traced this ideology to ‘the former colonial masters’, who also promoted development and invented concepts such as partners in development (Ake, 1996, p. 8).

In addition, development theory has been faulted, if not jettisoned, because it sidelined patriarchy. Subsequent efforts have sought to disclose the gendered division of labor, including its global dimensions: a key stratification system that places women in subordinate positions. Moreover, there is a focus on the changing role of the national vector in relation to globalizing processes. In one conceptualization, it is argued that the ‘globalization project’ is superseding national development and that individual states are helping to install a global enterprise in their locale (McMichael, 2004). From this standpoint, notwithstanding the enormous contextual differences in the magnitude of state power, the role of the state in the developing world is becoming that of administrative coordination of flows as they penetrate national nodes in the global economy. The state is said to exercise reduced control, leading to a growing sense of powerlessness. As in Europe with the European Union, slices of sovereignty are being stripped away or surrendered: surrendered perhaps as a defensive measure to preserve the state.

However, developmentalism—the ideology of development—survives this structural shift. It was part of the Washington Consensus, a global template of neoliberal ideas and a policy framework centered on deregulation, liberalization, and privatization, that organizing institutions such as the World Bank and the International Monetary Fund (IMF) sought to universalize. Their one-size-fits-all modus operandi ran aground on the shoals of ‘shock therapy’, market reforms in the former Soviet Union and parts of Eastern Europe, spectacularly in the 1997–98 Asian economic crisis, and the 2001 Argentine debacle.

After the discrediting of the Washington Consensus, there followed several efforts to forge a new consensus, including, intriguingly, the Beijing Consensus. Delimited by Joshua Cooper Ramo, a former journalist and now a lecturer at Tsinghua University, this consensus is thought to consist of an emphasis on ‘bleeding-edge’ innovation (such as fiber optic) to start change more quickly than the emergence of problems caused by change; avoidance of large-scale contradictions by stressing contemporary quality-of-life concerns and chaos management; and new security priorities to avert the ill effects of hegemonic power (Ramo, 2004, pp. 11–12).

Careful observers may disagree about what constitutes a Beijing model and the degree to which groups outside China are adopting it. Implicit in Ramo’s construction is a national framework for development. In seeking to conceptualize it, Ramo fails to offer insight into the processes and mechanisms of consensus-building. He does not delve into the fragmentation of discourses or note competing policy agendas in China and the extent of infighting. Moreover,
with authoritarian politics, consent may not be as high as Ramo posits. In the Gramscian understanding, consensus itself can reduce political space, for it is the major component of hegemony, with coercion always being part of the mix. From this perspective, consensus-making could be a means of exclusion. In this sense, the goals of development may be better served by rejecting a *pensée unique*, a singular way of thinking that its champions trumpet as a consensus; by going beyond the work of commissions on ‘North–South’ development and decommissioning development; and by invoking a series of debates internal to local encounters with the global. If antidevelopment leads in this direction, it becomes developmentally interesting. The Chinese case is a venue for exploring this proposition.

**Inclusiveness and Exclusiveness**

Since the onset of market reforms in China in 1978, there have been many debates about how to enhance material power and the route to it: what is a ‘socialist market economy’? How far to extend the market and reduce the role of the state in the economy? And how fast to hasten this process? The importance of ‘patience’, especially after a long period of feudalism and then a planned economy, is stressed. Compared to ‘shock therapy’ in Russia and elsewhere, the opening to the market in China is a gradual one. This strategy is related to the conundrum of how to engage global competition. And with the advantages mentioned above—a labor-intensive economy, cheap wages, and an enormous home market—what are the best ways to gain a competitive edge?

In China, there is self-confidence in the ability to direct global flows as they meet local conditions. This assurance is linked to ample investment in infrastructure, provision of basic education for all citizens, and extensive industrialization. Just as countries in Europe and Canada have sought to restrict the amount of foreign content in television and films, so Chinese authorities have regulated the quantity of imported television programs, which convey global flows. Similarly, the state protects indigenous culture by subsidizing the Beijing opera, crafts, and artifacts for festivals.

In state–market relations, democratization is presented as a goal. Whereas the Chinese Communist Party (CCP) seeks to build legitimacy through its notion of ‘socialist democracy’, the Beijing leadership does not define democracy in terms of constitutional protections for liberty or competitive elections with a formal opposition and other institutional arrangements such as a separation of powers. Rather, democracy in China today is regarded as a way to resolve problems and to make adjustments in politics. Not easily amenable to an abstract theoretical model, the content of democracy in China is an ongoing negotiation while the regime strives for legitimacy and other actors seek political space (Sun, 2005, pp. 63–64). As many of my interviewees attest, now there is slightly more freedom in daily life than a decade ago, or, as Robert A. Scalapino puts it, a move from the ‘hard authoritarianism characteristic of the Mao era to what might be described as authoritarian pluralism’ (2005, p. 50; for a competing interpretation, cf. Pei, 2006). Within limits, criticism is expressed. Political disagreements surface, though, without the right to organize alternative power structures.

In foreign policy, democracy serves as a contentious issue, especially in regard to Taiwan and thus with the United States. Many Chinese strategic thinkers contend that globalization can be used to democratize US hegemony by restraining its unilateralist policies and making Washington more reliant on sources of legitimate authority. Thus, if the interests of more countries, including a strong China, are more tightly interlocked, globalization may serve as an affirmative force in democratizing US-dominated world order. Pursuing this logic, Chinese
think-tank and other policy analysts argue that globalization heightens competition in a positive-sum game: different actors may win though not equally through multipolarization (Deng and Moore, 2004).

A key factor is migration from the United States, traditionally a receiving country, which sends mobile Chinese who bring investment, technology, corporate culture and business acumen that differ from the skills of local tycoons, as they are known in China. There are other streams of migrants, such as North Koreans who are less welcome; in some cases, they have been expelled or are not granted entry. Moreover, internal migration is a marked pattern. China has a vast floating population numbering 130 million people, and the state is considering moving 400 million more, roughly equivalent to the size of Europe’s population.

In comparison to the EU, whose Schengen zone provides for the free movement of people and security cooperation among its members, the construction of a regional order in Asia remains more problematic. Regionalism presents risks, as in the 1997–98 Asian financial crisis, and opportunities. For China, the questions are: which Asia? The Association of Southeast Asian Nations (ASEAN) plus China, Japan, and Korea? Or East Asia? Or Pacific Asia? Would the latter extend Cold War measures, with a heavy US military presence? Surely the Cold War lingers in East Asia, and the Realist lens of a state-centered world is used to view international relations, albeit represented as ‘Realism with Chinese characteristics’.

From this perspective, China seeks to improve coordination in Asia and become even more of an epicenter of globalization. Its competitive landscape, booming markets, and world-class scientists follow the prosperity achieved by Japan, Hong Kong, South Korea, and Taiwan after World War II. While China’s transformation, with its vast scale, is undoubtedly shaping globalization, the dynamics of intra-Asian relations are also striking. For example, in developing Asia, India, the world’s largest democracy, maintains an advantage in tradable services. Moreover, the complexity of manufacturing supply chains upsets wobbly formulations in policy circles in the West about trade and currency imbalances with China. Whereas Beijing maintains a $200 billion trade surplus with the United States, it has a $137 billion trade deficit with the rest of Asia. Yet, although up-to-date, reliable data on the movement of goods and money to and from China are lacking, it is reported that most profit from manufacturing supply chains in China goes to American and other overseas firms (Barboza, 2006).

While Asia’s macroregionalism and impact on globalization are manifest, many underlying issues about coordination within the region persist: to what degree to enhance the activities of the Shanghai Cooperation Organization countries in Central Asia? What is the concrete form that subregionalism, in dialogue with the ASEAN 10, should take? A primarily economic, military-strategic, or sociocultural constellation? In addition, microregionalism occurs within China and is expanding, as in plans to partner Beijing and the industrial city Tianjin so as to increase their competitiveness. Meanwhile, cities, such as Shanghai, a financial power and trading center, are hooking out into the global economy and becoming major players in their own right.

To discuss the region’s future, China’s Boao Forum for Asia (BFA) is an alternative to the annual World Economic Forum usually held in Davos, Switzerland. Adopted in 2001, the Declaration of the BFA provides for a yearly conference, a platform for an exchange of views among more than 1,000 senior government officials, business leaders, and researchers.

But with the enormous diversity and many conflicts in East Asia, how can strategic trust be established? Notwithstanding the rhetoric about Asian values, what norms are held in common? And are civil-society organizations, increasingly emergent in China, included in regionalism? This is part of the identity question, which, in China, is tied to its status in the world.
Status and Identity

China’s attempt to attain world status befitting a major power involves a strategy of multilateralism and building military might. Yet these issues ignite trying debates in China. Following the Mao period, China inserted itself in the global arena by joining the United Nations as a permanent member of the Security Council. Along with China’s accession to the World Trade Organization (WTO) in 2001, and its membership in the IMF and World Bank, Beijing has increasingly participated in UN peacekeeping activities, its role raising questions about the People’s Republic’s own dedication to maintaining peace in its neighborhood. International crises, especially the 1999 US bombing of the Chinese Embassy in Belgrade and a 2001 crash involving an American spy plane and Chinese aircraft near Hainan Island, have complicated this issue (Pang, 2005). But, on balance, the Chinese authorities find international organizations to be useful instruments for enhancing status and employing the symbolic power of serving as a leader in the developing world.

Emblematic of improving its image in the global arena, the watchword in China is ‘responsible country’. The principle of responsibility means not only meeting obligations but also safeguarding sovereignty. The options include choosing among numerous security forums and multiple meanings: national security, regional security, human security, comprehensive security, and global security, some of which take into account nontraditional threats such as environmental harms. Beginning in 1996, the Chinese authorities and state-controlled media have favored what they call the ‘new security concept’: a positive attitude extending beyond the historical weight of being victimized by outside powers to ‘pragmatism’ in international affairs (Xia, 2004; Jin, 2005).

In practice, pragmatism signifies an increase in military expenditure and, also, a means to establish space for endogenous development. Military spending is deemed necessary in that some influential Western liberals and Realists, such as John J. Mearsheimer (2005), contend that China’s rise requires pursuing national interests, which will inevitably collide with those of the United States and thus constitute a threat. From their perspective, Chinese policymakers and scholars believe that it is imperative to achieve rising status suitable for a global power, but it need not threaten others (Yu, 2004).

The trope ‘peaceful rise’, widely employed by China’s leaders until early 2004, is no longer in vogue. An undercurrent in China is that without wanting to appear hostile, surely political authorities are not willing to relinquish a sovereign state’s prerogative to use force, as in hotspots like Taiwan or in territorial disputes with neighbors. Whereas the debates in China do not altogether discard the word ‘peaceful’, the other component of the phrase ‘peaceful rise’, fails to resonate in Mandarin, for ‘rise’ translates as ‘surge’, which would be an abrupt phenomenon. In a nation that values stability and order, the implication of a rupture is to be avoided. Discursively, ‘peaceful development’ is a better fit, and riding globalization is deemed a way to achieve it.

Just as development may take myriad forms, so it spawns multiple shades of identity, inter alia, Sinocentric and pan-Asian images. This part of the self/other distinction operates in the global arena and is tied to a long perspective. The historical memory of ‘the Century of National Humiliation’ persists. This experience is seen as a period of wars, exploitation by foreign powers, and decadence. Thus, trust in external actors within East Asia is generally low. Even when focused on the here-and-now of globalization, this discourse about China’s history is unavoidable.

Another shade of identity relates to domestic pluralism. In China, the question of diversity is partially a matter of the national minority populations, including large Muslim communities.
Many of these ethnic groups mostly live in remote regions, border areas that lag far behind the country’s average standards, as measured in income, education, health care, water supply, and transport. Whereas concrete policies are being adopted to develop the frontier areas, the official discourse continues to stress ‘harmonious relations’ within the compass of one society.

A third shade concerns defining Chineseness. To depict China’s transnational relations with its diasporic community, Beijing officials no longer favor the phrase ‘Greater China’, because it may be perceived as intimidating (for example, to Southeast Asians). No idiom has replaced it in the political lexicon. Rather, there are mixed intersubjective meanings, variably invoking Confucianism and the accumulation of wealth. For dealing beyond China’s territorial boundaries, a narrative of flexibility lubricates the negotiation of practices. In other words, there are diverse ways to be Chinese (Goodman and Segal, 1994; Ong, 1999; Ong and Nonini, 1997; Callahan, 2002; Ames, 2004).

How then does a ‘harmonious society’ attempt to harmonize the quest for status and varied identities? In the blend, realizing ‘prosperity’ is accorded priority, if not primarily in word, then in deed. Yet this move requires stability, which, in turn, entails balancing the state. The decentralization of political authority is a key policy initiative, one that shifts dimensions of power from national to local government (Wang, 2004, pp. 534–535). Nonetheless, periodic swings from balancing to rebalancing can be safely anticipated. This restructuring of the state also involves reform in the ministries (Wang, 2004, pp. 536–537). Matters of commerce, tax, and the legal code, among others, are subject to slow-paced institutional adjustments in the mode of regulation.

Many problems appear in, or are even heightened by, reforms partly aimed at winning gains from globalization. Foremost perhaps are rapidly increasing inequalities in income, among regions, and between the countryside and the city. In 2005, a Chinese government press agency reported that the top fifth of the population received 50% of national income while the bottom fifth earned less than 5% (cited in Le Monde, 2005). Although figures differ slightly, most up-to-date sources calculate the ratio of average urban income to average rural income in China as more than three to one.

The country’s growing number of millionaires and billionaires, especially in Guangdong Province, an economic powerhouse in southern China, coexist with impoverished workers and a multitude of unemployed citizens; the ranks of the latter are swollen by layoffs in state-owned and collective enterprises, mainly in large industries, many of them in the northeastern rust belt and poor inland areas. More frequently, these public enterprises are declared financially defunct. Some of the bankruptcies are attributed to unsound banking practices, including massive bad debts and new sources of vast corruption. The pursuit of prosperity is accompanied by shortages in housing, sewage, and transportation. The challenges of meeting escalating energy needs (up 65% between 2002 and 2004, making China the second biggest oil market in the world) and coping with rampant pollution, hazardous waste, and other forms of environmental degradation strain state capacity. Safety nets are being established, but are big projects in the west and other poor areas the answer to the needs at the grassroots?

These and other questions are debated by China’s ‘New Left’, as it is called. The ‘New Left’ is a heterogeneous group of disgruntled intellectuals and other, often young, citizens. Edited by Wang Hui, a professor of literature, the journal Du Shu is a venue that allows for criticism of the caliber of governance and the impact of policies that favor an export-oriented economy at the expense of the wellbeing of several sectors of the population, especially subaltern groups in the countryside. Certain articles in Du Shu focus on topics such as freedom of expression and damage to the environment (Pocha, 2005). Some of the dissent from the ‘New Left’ endorses
select elements of Maoism; aspects of the criticism resonate with the concerns of the global
devices justice movement; and other restive sentiment about quality-of-life issues is in fact
favored by members of President Hu Jintao’s government.

Since becoming president in 2003, Hu, and the premier, Wen Jiabao, have sought to calm
critics by introducing the policy of ‘five balances’: the need to reach equilibrium between ‘dom-
estic and international, the inland and the coast, the rural and urban, society and the economy,
and nature and man’ (Financial Times, 2005). For each balance, Chinese officials at all levels are
supposed to give priority to the first concern rather than the second factor. This discourse is
crystallized in the motto ‘green GNP’, shorthand for the desiderata delimited by China’s leaders.

At the same time, the state seeks to restrain dissent by relying on filters, firewalls, and other
security tools. Some of them are sold to China by US companies like Cisco Systems, Microsoft,
Yahoo, and Google, which sign pledges to respect local censorship laws. Nevertheless, consider-
able discontent appears on the Internet. Understanding globalization as a double-edged sword,
sundry voices decry the excesses of market expansion. They also debate the impact of the WTO,
with attention to its deleterious effects. Frequent talk about workers’ rights is part of this trend.
Furthermore, artists are pushing social mores. Some internal migrants, too, are dissatisfied,
refusing to take the worst jobs in factories. Among peasants and villagers, riots and protests
numbering in the tens of thousands each year are vivid expressions of frustration with the
Chinese ‘miracle’.

Another social force building political space is the Falun Gong, introduced to the public in
1992. This spiritual practice purports to improve mind and body, and causes the political auth-
orities to worry. Subject to crackdowns by the government since 1999, many of its adherents
have their roots in rural areas and are poor. Some of them are women who have lost jobs in
state agencies and are vulnerable to globalization. For the power holders in Beijing, the Falun
Gong represents and is perceived as a political challenge. In a country with a historical tradition
of redressing grievances, a government increasingly prone to prize order and stability is sensitive
to the activities of a movement constituted outside the realm of state politics.

To a certain degree, a discourse resistant to market-led and state-induced globalization is emer-
ging in the expanding space carved out by China’s nongovernmental organizations (NGOs). They
may be best understood as both a response to and a component of the power of globalizing forces,
refracted and shaped by the state. This contradiction manifests in the efforts of NGOs to mitigate
the jagged impact of the deepening of the market—say, by remediating widespread environmental
damage—and in their compliance with the state or even extension of its policies.

China’s NGOs have called for changes in the regulations on their activities. The current rules
stipulate that under the dual-management system they must register with the civil rights depart-
ment and a relevant industry watchdog. In other words, these organizations must be officially
endorsed in order to receive tax exemption, sponsorship from domestic enterprises, and prefer-
ential treatment in governmental purchasing policy. Another requirement, one that may be
relaxed, but particularly stringent for regional NGOs, is meeting a threshold of activity funds,
currently 30,000 yuan, or US$3,614, before organizations are permitted to register (Zong,
2005, p. 4).

Empirical research, for example at the Tsinghua University NGO Research Centre, documents
the expanding role of NGOs in China. The Ministry of Civil Affairs puts the number of those
officially registered at 283,000, but scholars such as Wang Ming, director of the Tsinghua
NGO center, report approximately three million. There are also township or community-
based, unregistered NGOs required to submit documents (Zong, 2005, p. 4). Another category
is foreign NGOs in China, perhaps 3,000 to 6,000 strong, according to Wang Ming, who
The number of foreign NGOs is small, but they are financially powerful and have impressive activity capacity and thus wield huge influence in society (quoted in Zong, 2005, p. 4). Although NGOs such as Greenpeace are not officially registered, the state clearly acquiesces to this transnational presence. However, while they are supposed to be subject to the legal requirements of the dual-management system, the legislation—an aspect of how the state accommodates globalizing activities—is in flux.

Globalism and Nationalisms

If globalism, the dominant ideology of globalization, provides the normative architecture for the expansion of the market (Steger, 2002), in China it also embraces cosmopolitan norms that are built on the foundations of a more than 5,000-year-old civilization. Indeed, the cosmopolitan dimensions of globalism easily come into play in daily life. Examples are legion: an outpouring of contributions for tsunami relief signifies a display of empathy with humankind beyond China’s territorial borders. Also, the growing number of Chinese tourists traveling overseas bring back images of alternative ways of life, including varied intersubjective frameworks. Many Chinese students enroll in universities abroad, and an increasing number of foreign students and teachers come to China. Political leaders and business people in China are sending their children for schooling in other countries. And, nowadays, marriages to non-Chinese are common and without stigma they used to have. With greater frequency, disporic Chinese are returning to the mainland to take advantage of the economic opportunities there and injecting new norms in the mindset. No doubt, borders are blurred; Great-Walling, latticed.

Yet there is a contradictory phenomenon. Accompanying mounting globalism is the ascendance of nationalisms. This tension is manifest in Shanghai, China’s most globalized city. There, more than anywhere else in the country, the 2005 demonstrations against Japan took a violent form. Triggering the explosion of nationalism in Shanghai was the downplaying by Japanese newspapers of the acts committed by Class A war criminals found guilty at the postwar Tokyo trials; Prime Minister Junichiro Koizumi’s annual visits to Yasukuni Shrine, where these soldiers are buried; and the failure of Japanese textbooks to deal forthrightly with the history of militarism in Asia. Consequently, in the display of anti-Japanese hostility, Chinese nationalism and globalism encountered one another.

What kinds of nationalism? What is its content? One form is linked to pride in the country’s real achievements: more prosperity, better housing, and advances in technology. It is apparent in the fervor of sports teams fueled by preparation for the 2008 Olympics in Beijing. This type of nationalism is animated by incidents with Taiwan and other hotspots offshore (Zhao, 2005). Disputes with the United States over trade and protectionism as well as revaluing currency add to the nationalist zeal. State sovereignty and self-determination are components of the official discourse. Mostly top-down before the mid-1990s, this nationalism is dominated by the CCP and dwells on patriotism (Chen, 2005).

More bottom-up beginning in the early 1990s, popular nationalism has a different inflection (Chen, 2005). According to Chen, popular nationalism consists of different strands: traditional or culturalist notions emphasizing Confucian philosophy; neoauthoritarianism repackaged as neoconservativism with an emphasis on rejuvenating the strong state and patriarchal power; and the call for the political will to say no to the United States and Japan in the country’s foreign relations, reflected in survey data and best-selling literature in China, which expresses criticism of the state (Ong, 1999, pp. 196–201; Chen, 2005). More than ten years on in this debate, is another form or forms of nationalism evolving? A robust construction of the global nation?7
Conclusion

The constructs examined above convey multiple, dynamic, and chaotic meanings. But given the complex dynamics of globalization, the arduous transition on which China is embarked, and the sheer scale of this shift, it would be foolhardy to expect coherence. In delineating patterns, however inchoate, the four specific questions posed at the outset of this article may serve as guideposts. Let us now revisit these themes and consider the implications.

1. The globalization debates in China are hardly single-mindedly concentrated on economic issues, and have shifted since the 1978 advent of market reforms. Now, they take on a decidedly political hue. Encapsulating politics, society, and culture, the framing discourses incorporate realpolitik; to be sure, some of them are centered on the state, which can play a key role in garnering the benefits of globalization. As indicated, they coexist with other discourses. Above all, the leaders, many of whom were trained in engineering and other technical fields, regard themselves as pragmatists.

2. The redefinition of political life in China is shot through with technological innovations and more mobile spaces, as on the Internet. Subject to contestation, new state–market–society relations are evolving and joined to China’s insertion in the globalization syndrome. The linkages between the domestic complex and the global political economy have precipitated perplexing questions. In China, the discourse about the country’s ‘peaceful rise’ is mainly framed in terms of development paradigms, ensconced as they are in an amalgam of internal and external relations.

3. Globalization debates in China are definitely not confined to its official transcripts. In the face of mounting prosperity, matters pertaining to the ethical framework of development are surfacing. Interventions critical of policies such as bans on begging in public places in certain cities are prompting further debates on provisions for the losers in globalization. Undoubtedly, resistance to the incursion of neoliberal globalization, channeled, for example, by the WTO and private corporations, is apparent. Chinese police records document a sevenfold spike in incidents of unrest, including mob violence, in the last ten years (reported in Bardhan, 2005). Helping China’s growing rights movement is an informal network of journalists, scholars, and lawyers; they gather information, write articles, file court cases, and provide expertise. Yet, given semiauthoritarian politics, some of the resistance must be read as subtext. Much of it is covert, though overt displays take such forms as workers’ unrest over conditions in factories and peasants’ discontent with a meager social policy, that is, failings in meeting the needs of the most vulnerable citizens in an increasingly prosperous society.

4. In China, the bundling of globalization debates includes some elements that derive from without, while others spring from a local knowledge system. An ‘indigenous’ epistemology is about how problems are formulated, methods for resolving them, and ways to reconcile differences. Over the longue durée, a knowledge structure absorbs and develops part of its ‘common sense’ from outside national borders through intercivilizational contact, including conquest, long-distance trade, and migratory flows. For China today, like elsewhere, vaulting forward this thinking pertains to control over globalization processes, notwithstanding a professed self-confidence in the ability to steer them. Of course, it remains to be seen whose priorities will prevail. For instance, although China has not experienced structural adjustment under the guiding hand of the Bretton Woods institutions, Beijing is the World Bank’s biggest client in terms of outstanding loans; and in the post-2000 period, all of
them are at commercial, not concessionary, rates. Notwithstanding China's sizable foreign exchange reserves, the Bank estimates that the country is home to about 18% of the world's poor. Now, the World Bank's large-scale involvement in China's educational projects, enamored as a poster child of the Washington-based agency, provides a means for not only basic skills but also the dissemination of universalizing ideas. Meanwhile, the Bank offers largesse for Chinese consultants; and some of these *nouveaux riches* are moving into gated, upscale communities. Even among the winners, concern lurks about the unevenness of globalization.

More often, however, the transcripts about vulnerability are directed at outside forces. In this vein, the 1997–98 Asian financial crisis dramatically betrayed the risks of globalization, even if China was not one of the most severely affected countries in the region. So, too, standardization policies, required in international accountancy procedures and for joint ventures in China's high-tech centers, show that the benefits of globalization require a high level of integration in the world order.

In China's official transcripts, the antidote is represented as a stable Confucian order. Despite this move to essentialize culture, a flexible value system is in fact emerging. Folklore, aesthetics, and material power are combined. Shared meanings must be negotiated. Like Beijing opera and traditional medicine, China's encounter with globalization has its own speed and rhythm, markedly different from the crescendo and swiftness characteristic of Western forms. In China, the discourses offer searching reflection on a way to balance globalizing processes, one that calls for a gradual, sequenced, and directed strategy. Today, participants engrossed in this debate are posing the political issue of who should be entrusted, or empowered, to look after the public good. When politics increasingly crosses the line between the public and personal, as well as the national and global, realms, the telling question becomes: how is this trust being reimagined?

In sum, it is useful to tell the story of China precisely because we cannot afford to keep repeating the old tales of globalization and development. The debates underway there can contribute importantly to remaking these narratives.

China, I want to say emphatically, is not a model to be copied. But it is a compelling case of a home-grown strategy for transformation. It is a case wherein hope and self-confidence are expressed in the developing world. Absent structural adjustment, it is a case of a large measure of self-determination within the globalization syndrome. It is a case in which indigenous cultural resources are mobilized while values worth localizing are derived from other systems.

Outside China, these issues are ripe for debate and may well open to different answers. The point is that there is no reason for other countries and regions to remain engrossed in bleak discourses about their unremitting 'crisis'.

The operative challenges become: how to reframe issues? How to imagine alterglobalization in the encounter with development and achieve a measure of autonomy? How to tap a cultural endowment, fostering not merely resources and inventions but resourcefulness and inventiveness? In other words, how to write a fresh script for the future while in the grips of neoliberal globalization?

The question to wrestle with is how far these debates can be taken. And how can different communities find their own alternatives? One lesson is clear: not to learn from the debates over globalization, the foray into antidevelopment, and a newly informed quest for the self-realization of collective potential would be a great error.
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Notes

1 Computed in purchasing power parity, the US GDP per capita of $37,800 in 2004 was second worldwide to Luxembourg’s, whereas China’s at $5,000 ranked 122 for all countries. The source of this information is the Central Intelligence Agency (2004), available at: http://worldfactsandfigures.com/gdp_country_asc.php (accessed 2 June 2005).

2 I am adapting the distinction between ‘public’ and ‘hidden transcripts’ introduced by James C. Scott (1990). Public transcripts refer to verbal and nonverbal acts by the dominant party or, ‘to put it crudely, the self-portrait of dominant elites as they would have themselves seen’ (Scott, 1990, p. 18; emphasis original). For Scott, they are the public record of superior–subordinate relations, whereas hidden transcripts are what subordinate parties say and do beyond the realm of the superordinate group.

3 Elsewhere (Mittelman, 2000, 2004), I have argued that globalization is not a single, unified activity, but a syndrome of processes and activities: a historical transformation in the interactions among market forces, political authority, and the lifeways embodied in society and culture.

4 The domestic debates over the WTO in China are explored by Wang Yong (2000).

5 Military developments in China and its security policy are perceived as a major threat in Washington, as evident in US Defense Secretary Donald H. Rumsfeld’s sharp criticism of Beijing: ‘China’s defense expenditures are much higher than Chinese officials have publicly admitted. It is estimated that China’s is the third-largest military budget in the world, and now the largest in Asia’ (as quoted in Shanker, 2005, pp. 1 and 7). Recent data compiled by the Stockholm International Peace Research Institute (SIPRI, 2004, appendix 10A) show that in 2003, US military spending, calculated at market exchange rates, came to roughly as much as the total for the rest of the world, while China’s expenditure, was about 4%. The United States spends approximately $1,500 per citizen; China, less than $100 (SIPRI, 2004, appendix 10A). China’s increases in its defense budget since 2003 could also be compared to the spike in the US’s, or relative to the growth of its GDP and then measured as a percentage against India’s and those of other burgeoning economies. Whereas the Pentagon warns that China’s defense spending is now mounting rapidly and may exceed Beijing’s official figure, it is not clear why China would engage in an arms race with the United States and deflect funds from development rather than attack the US economy by withdrawing its massive holdings in the bond market, thought by many American economists to be propping up the dollar. Similarly, Washington would seem to have little incentive for a shooting war with Beijing. The United States is not only militarily engaged elsewhere but also amassing huge budget and trade deficits, thus making China’s goodwill an increasingly important factor.

6 With construction of exercise centers and other facilities as well as the demand for equipment, production in China’s sports industry is already growing by 50 billion yuan, or US$6.04 billion per year, and the spending on average by Beijing residents for physical exercise is now 888 yuan, US$107 (China Daily, 2005, p. 4).

7 Fusing these components, Thomas G. Moore (2000, pp. 123–126) posits the emergence of ‘global nationalism’ in China.

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Rethinking the Emerging Post-Washington Consensus

Ziya Öniş and Fikret Şenses

ABSTRACT

The objective of this article is to provide a critical assessment of the emerging Post-Washington Consensus (PWC), as the new influential vision in the development debate. The authors begin by tracing the main record of the Washington Consensus, the set of neoliberal economic policies propagated largely by key Bretton Woods institutions like the World Bank and the IMF, that penetrated into the economic policy agendas of many developing countries from the late 1970s onwards. They then outline the main tenets of the PWC, emerging from the shortcomings of that record and the reaction it created in the political realm. The authors accept that the PWC, in so far as it influences the actual practice of key Bretton Woods institutions, provides an improvement over the Washington Consensus. Yet, at the same time, they draw attention to the failure of the PWC, as reflected in current policy practice, to provide a sufficiently broad framework for dealing with key and pressing development issues such as income distribution, poverty and self-sustained growth.

INTRODUCTION

The period from the late 1970s to the early 1990s witnessed a major upsurge in neoliberal ideas in the context of the development process and development strategies. This neoliberal counter-revolution represented a major assault on national developmentalism, in the context of which the state had played an active role in the development process through such strategies as import-substituting industrialization and financial repression. The emerging neoliberal orthodoxy advocated a new development model based on the primacy of individualism, market liberalism, outward-orientation, and state contraction. The organizing principle of neoliberal political economy was the notion of a minimal state, whose primary functions were to secure law and order, ensure macroeconomic stability and provide the necessary physical infrastructure.1

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The new orthodoxy identified widespread and excessive state intervention as the major cause of weak economic progress. The natural implication of this diagnosis was that the market should be liberated from the distorting influences of large public sectors, pervasive controls and populist interventionism. Neoliberal thinking, in turn, exercised an important practical influence on the policy discourse of key Bretton Woods institutions such as the IMF and the World Bank. The central tenet of neoliberal thinking and the associated ‘Washington Consensus’ was ‘getting the prices right’. The state itself was conceived as the problem rather than the solution. The universal policy proposal was to pursue a systematic programme of decreasing state involvement in the economy through trade liberalization, privatization and reduced public spending, freeing key relative prices such as interest rates and exchange rates and lifting exchange controls. Efficient allocation of resources would be guaranteed by relative prices determined through the impersonal forces of the free market. The logical corollary of this was that the cost of ‘government failures’ arising from rent-seeking and price distortions associated with excessive protectionism would always outweigh ‘market failures’ associated mostly with imperfect competition and under-provision of public goods. The Washington Consensus was thus increasingly based on the understanding that imperfect markets are always superior to imperfect states.2

The rise of neoliberal orthodoxy was in addition supported by a powerful ‘new political economy’ that challenged the notion of a benign state which would always act in the public interest, an idea that was at the core of structuralist development thinking and the associated models of national developmentalism. The political economy element embodied in neoliberal thinking underlined the need to analyse the state, not as an abstract institution divorced from the society at large, but as a powerful interest group in itself. This implied that the actors concerned could take advantage of the rents associated with highly interventionist policies, with self-maximizing politicians and bureaucrats using their powerful position in society through various forms of corruption. This was also used to explain the persistence of policies such as protectionism: although they were against the public interest at large, such policies continued to be implemented because they usually involved numerically small but powerful interest groups, such as rent-seeking elements in the private sector, and state officials. A natural implication of this rather bleak view of politics and interventionist economic policies was that liberalization and state contraction were necessary tools to curb the excessive powers enjoyed by politicians and bureaucrats, a process which was regarded as crucial for rapid and equitable economic growth.3

2. For powerful expositions of this line of thinking, see Lal (1983) and Little (1982).
3. On the political economy dimension of neoliberal resurgence, see Colclough and Manor (2000).
By the beginning of the 1990s, however, the Washington Consensus itself was under serious challenge. A major objective of the present study is to uncover the forces that have progressively undermined the very foundations of the Washington Consensus, resulting in the emergence of a new line of thinking in development, namely the ‘Post-Washington Consensus’ (PWC). An attempt will be made to disaggregate the principal elements of this new consensus, which seems to have been emerging within the dominant policy establishment in recent years. We do recognize that key elements of the emerging PWC constitute progress over the naïve postulates of the earlier Washington Consensus that it seeks to transcend, but our central criticism is that the PWC does not go far enough in overcoming the limitations of the neoliberal policy agenda.

In this context, the following questions assume particular relevance. Is it possible to accomplish significant poverty alleviation without altering the underlying asset or wealth distribution? Is it possible to deal effectively with issues such as unemployment, poverty, and the broader and even more challenging distributional issues through growth alone without taking into account considerations relating to ownership structures? Similarly, is it possible to reform the key Bretton Woods institutions in a meaningful way, without tackling the underlying structure of power at the global level? A genuine encounter with the development issues of the post-neoliberal era requires a serious consideration of fundamental questions of this nature. Our central contention is that although power issues in the domestic and international arena are at stake, these are not sufficiently emphasized in the emerging PWC.

THE WASHINGTON CONSENSUS UNDER CHALLENGE

The hegemonic position of the neoliberal paradigm had started to run into serious criticisms by the beginning of the 1990s. The growing intellectual challenge to neoliberal orthodoxy was based on accumulating empirical evidence that undermined the fundamental claim of the Washington Consensus that full-scale liberalization, at all costs, is associated with superior economic performance. The following facts of development performance in the neoliberal era, although somewhat stylized here, deserve particular emphasis.

A highly influential element in the neoliberal resurgence had involved the interpretation of the East Asian success. The superior economic performance of Newly Industrializing Countries (NICs) in East Asia, not only in the realm of economic growth but also in terms of key social indicators, was interpreted in such a way as to provide strong support for the neoliberal paradigm. Countries such as South Korea and Taiwan had, for example, managed to combine outstanding rates of economic growth with striking performances in the domains of employment expansion, poverty reduction,
and income distribution. In the neoliberal vision, Asian NICs were successful because they were less protectionist, more outward-oriented and closer to the norms of the free market than their counterparts in other parts of the developing world (see Little, 1982). Countries that were heavily dirigist and protectionist in their economic policies, on the other hand, experienced not only slower rates of economic growth but also higher income inequality and limited success in terms of employment expansion and poverty reduction. Such countries also experienced serious macroeconomic instability and crises which were absent in the East Asian context for most of the post-World War II period.

This kind of dichotomy, which had formed one of the central pillars of the Washington Consensus, was seriously challenged by more careful and detailed accounts of East Asian successes. Institutionalist interpretations of hyper-growth in South Korea and Taiwan highlighted the fact that rapid industrialization and export growth was at the heart of their superior economic performance. Yet, strong growth and diversification of industrial output and exports could not be accounted for simply by the logic of the free market: interventionist strategies and an active industrial policy, dictated by considerations relating to longer-term competitiveness and dynamic comparative advantage, constituted the central elements contributing towards their success.4

Superficially, these economies seemed to be characterized by a low degree of protectionism, while the size of state involvement in the economy appeared to be lower than their less successful counterparts elsewhere. However, a closer investigation revealed that effective state interventionism and an appropriate mix of state and market, as well as import-substitution and export-promotion, were the key ingredients of their superior economic performance. This kind of empirical evidence clearly contradicted one of the basic assumptions of the neoliberal political economy that interventionist strategies necessarily work against long-term public interest. In retrospect, the institutionalist interpretation suggested that the kind of strategies adopted in East Asia represented national developmentalism of a different type. It also suggested that under certain specific conditions state interventionism can act in the public interest and can play a constructive role in the development process. The record of these countries, which had been skilfully used to provide empirical backing for neoliberal wisdom, has thus been instrumental in undermining it in the light of this powerful new evidence.

Probing further into the empirical landscape, another doubt was cast on the intellectual underpinnings of the neoliberal orthodoxy in terms of the overall growth performance of the world economy. Overall growth in

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4. Among the most influential studies are Amsden (1989) on South Korea and Wade (1990) on Taiwan. Also see Öniş (1998: 197–216; 261–84).
the world economy has been strikingly lower and more unstable during the neoliberal era compared to earlier periods. The gap between developed and less developed countries has widened, and there has been increased divergence within the Third World.\textsuperscript{5} For example, in comparison to the hyper-growth experienced by Asian NICs, Latin America in the 1980s and sub-Saharan Africa throughout the past two decades have lagged far behind. A large number of African countries were stagnant or registered negative rates of growth during this period. Latin American countries, after a similar performance in the 1980s, showed signs of recovery thereafter, but only at a slow pace. While both regions had stagnant investment performance and experienced deindustrialization, East Asian countries again posted the majority of good performances.\textsuperscript{6}

It would be an exaggeration to claim that all the social and economic problems experienced by developing countries in the 1990s were due to the neoliberal economic policies implemented under the Washington Consensus. Clearly, some of these problems had existed long before neoliberal reforms were introduced; yet, the implementation of neoliberal reforms appears to have aggravated them. Not only has overall growth been lower, but the degree of inequality in the global economy appears to have increased during the era of neoliberal restructuring.\textsuperscript{7} With regard to poverty the evidence is rather mixed. World Bank estimates show that the number of people living on less than one dollar a day has remained almost constant during the 1987–99 period, while the overall poverty rate for the same period has declined from 28.3 per cent to 23.3 per cent. Even those who claim that the poverty rate has fallen during the period of neoliberal restructuring concede, however, that this is due mostly to good performances in Asia, particularly in China. Excluding China, there is an increase in the absolute number of poor people while the fall in the poverty rate becomes more modest, declining from 28.5 per cent to 25 per cent (see Fischer, 2003: 8). In any event, the experience of many countries under neoliberal reforms, such as Argentina and Turkey, has clearly demonstrated that economic growth \textit{per se} is insufficient to deal with the problem of endemic poverty (see Şenses, 2001, 2003).

There is no doubt that neoliberal experiments in the developing and the post-communist world have also been characterized by considerable variation in economic performance among different countries as well as between different time-periods within the same country. Countries have also diverged sharply in terms of their ability to apply neoliberal reforms on a

\textsuperscript{5} See Rock (1993) and the annual \textit{Trade and Development Reports} published by UNCTAD for different years.

\textsuperscript{6} For evidence on growth and investment rates, see Kozul-Wright (2003); Pamuk (2002); UNCTAD (1999).

\textsuperscript{7} For evidence of rising inequality during the neoliberal era, see Akyüz et al. (2002), UNCTAD (1997) and Wade (2001a, 2001b).
sustained basis, particularly in the framework of nascent democratic institutions. One should, therefore, guard against simple generalizations in this respect. Yet, it is also the case that the application of neoliberal principles has produced only a few cases of sustained success.

Disaggregating economic performance under neoliberal reforms, premature financial and capital account liberalization have arguably constituted the soft spot of the Washington Consensus. A number of middle-income countries or ‘emerging markets’ have been encouraged or pressurized by key international institutions to open up their capital accounts before accomplishing a stable macroeconomic environment and constructing the necessary regulatory infrastructure over their financial systems. Premature exposure to the vagaries of financial globalization has been costly for many economies in the semi-periphery. Many countries found themselves on a highly fragile growth path based on short-term and highly speculative inflows of capital. Reliance on debt-led growth, without paying sufficient attention to the need to increase domestic savings, improve the long-term competitiveness of the real economy and establish an adequate regulatory framework for their financial sectors, rendered such economies increasingly vulnerable to speculative attacks and frequent financial crises. Indeed, the very frequency of financial crises — primarily, if not exclusively, in the developing world — has been one of the most striking features of the global economic environment in the post-1990 era. What is also striking is that such crises have not been confined to certain regions of the developing world, such as Latin America, as was the case in the era of import-substitution and national developmentalism; they have also occurred in Eastern Europe, and in East and Southeast Asia, regions that had been quite successful in avoiding financial crises in the past.

The highly volatile capital flows and frequent financial crises associated with under-regulated financial systems and open capital account regimes have proved to be costly in a number of important ways. First, they increasingly undermined the basis of sustained economic growth not only at the level of the individual nation state but at regional and global levels. A striking characteristic of the new era involved the possibility of contagion, with crisis in one country leading to declines in the availability of capital flows to countries in other parts of the world through its impact on investor perceptions and confidence. This was surely the case following the Asian crisis of 1997 and the Russian crisis of 1998, the aftermath of which saw investors being much more reluctant to commit funds to the high-risk financial environments of the so-called emerging markets. This injected a deflationary bias into the world economy that impacted both on individual nation states and on the workings of the global economy as a whole. Such crises have been costly not only in terms of growth but also in terms of their impact on poverty and income distribution. In many cases, the poor and the middle strata of society have been disproportionately affected, with highly negative social and political consequences.
Another disturbing feature of the neoliberal era involved pervasive state failure, with corruption in government emerging as a major area of concern under neoliberal reforms. This observation is rather paradoxical in the sense that the whole spirit of neoliberal reforms was predicated on the notion of overcoming pervasive rent-seeking and corruption which were diagnosed as natural by-products of excessive state intervention in the economy. Instead of this, the liberalization process itself helped to undermine the effectiveness and legitimacy of state institutions, creating a vacuum and producing an environment within which widespread corruption could flourish. Again what is striking is that the problem has not been unique to individual countries or regions, but has manifested itself as a broad, systemic problem, evident in all parts of the developing world. As in the case of financial crises, these instances of state failure have not only undermined growth, but also had a markedly negative impact on income distribution, trust, social cohesion, and ecological balance.

In terms of growth performance, it is worth noting that some of the most drastic experiments in neoliberal reforms have ended in failure. A typical example is the case of Argentina. After a period of prolonged stagnation in the post-World War II period, Argentina embarked upon a far-reaching experiment in neoliberal economic restructuring in the early 1990s. By adhering rigidly to the convertibility plan and its institutional counterpart, the currency board, in line with the advice of the IMF, it had considerable success in the early years in terms of reducing inflation from hyperinflation to single digit levels and engineering a massive privatization that helped to attract capital flows on a large scale. By the mid-1990s, Argentina was growing at historically unprecedented rates, and was singled out by the key Bretton Woods institutions as a model case that other countries ought to emulate. But the kind of fragile, debt-led growth that Argentina was experiencing started to lose momentum in the second half of the 1990s and came to a total standstill following the crisis of 2001. The crisis itself had costly consequences and has been a source of massive protests. We cannot give the Argentine case the attention it deserves here: what is relevant for our purposes is that a country that appeared to be fully committed to the implementation of the neoliberal agenda has ultimately found itself in the midst of a deep economic crisis with dire social effects.

8. International organizations like the World Bank started to pay increased attention to this issue in the mid-1990s. For the World Bank's initiatives to deal with corruption, see the World Bank Anticorruption Website, available at http://www1.worldbank.org/publicsector/anticorrupt/index.cfm.

9. Indeed, the two phenomena are interlinked. Countries that have experienced frequent financial crises are also countries that have been characterized by widespread corruption.

10. On the rise and fall of neoliberalism in Argentina, see Baer et al. (2002). We should note that there is some controversy over the extent to which the IMF itself favoured the rigid version of the convertibility plan that was put into effect by the Minister for the Economy, Domingho Cavallo.
Nor is Argentina unique in this respect. Turkey had one of the very first encounters with the Washington consensus in 1980. By the mid-1980s, it had recovered from a major crisis and found itself on a steady growth path based on rapid expansion of exports. Again, it was identified by the principal international financial institutions as a model case of successful restructuring (Şenses, 1991). But the performance of the Turkish economy deteriorated in the 1990s, notably following the decision to open up the capital account fully in 1989, in the face of rising macroeconomic instability and without the necessary regulatory and legal safeguards. Turkey has experienced three important crises during the second phase of neoliberal reform which have clearly jeopardized the country’s growth and income distribution performance.¹¹ It is currently trying to recover from the latest and deepest of these, the crisis of 2001. The list of such cases — which have been initially identified as neoliberal success stories but whose performances have subsequently failed to live up to initial expectations — can be extended further.

Finally, another major challenge to the Washington Consensus arose from the observation that the small number of countries achieving high rates of growth in recent years have deviated from neoliberal norms in certain crucial respects. China and Vietnam, the two hyper-growth cases, have successfully penetrated into export markets on the basis of low wages and attracting large amounts of long-term foreign investment. Yet, neither of these countries has conformed fully to the neo-classical logic; selective infant industry protectionism and active industrial policy have been the key components of the policy package in both cases.¹² India, a country which has been growing rapidly and emerging as one of the few real success stories of the recent era, has been liberalizing its trade and capital account regime but only gradually (see Ahluwalia, 1999). Malaysia, another successful case of rapid growth based on export-orientation and foreign direct investment, has deviated from the norms of the Washington Consensus in a critical respect, namely through the imposition of controls over short-term capital flows. It can be argued that this non-orthodox instrument helped insulate Malaysia from the vagaries of the Asian crisis which has proved to be so costly for other countries in the region such as Thailand and Indonesia (see Kaplan and Rodrik, 2001). Chile, widely considered to be the most successful country over time during the neoliberal era, also deviated from neoliberal norms by effective state involvement in the creation of natural resource based export activities after the mid-1980s (see Kozul-Wright, 2003: 12).


and, perhaps more crucially, by maintaining controls over short-term capital flows throughout the 1990s (see Krugman, 1998; Stiglitz, 1999). Russia, which achieved rapid growth following the 1998 crisis, is another country that has only partially liberalized its capital account regime.

In similar vein, the countries which have been more successful with economic reform in Eastern Europe — notably Poland, Hungary and the Czech Republic — have, rather than simply relying on neoliberal reforms, benefited from the existence of a double external anchor. Not only the Bretton Woods institutions, but the EU as well, have played an active role in their transformation process. The prospect of early EU membership has generated major additional benefits to these countries, and provided them considerable leeway in maximizing the gains and minimizing the losses associated with neoliberal reforms. Financial resources associated with early accession have strengthened the hand of reformers in such economies; positive signals from the EU have helped them to attract considerable foreign direct investment. Clearly, such additional incentives have been lacking for the remainder of the developing world, a category that includes a large segment of post-communist Eastern Europe. Hence, it would be misleading to use these countries as examples of successful neoliberal reform, as they may not have achieved this level of success without the unusually favourable mix of conditions and incentives associated with the prospects of early accession to the EU.

It is also important to point out that the limited number of successful cases identified above found themselves in a situation which could be described as a virtuous circle. Arguably, they managed to be successful by deviating from neoliberal norms in certain crucial respects. The fact that they were successful and could avoid crises meant that they could go on experimenting with heterodox instruments without encountering the discipline of international financial institutions. Less successful countries like Argentina and Turkey, in contrast, found themselves trapped in a vicious circle. Their conformity with key aspects of neoliberal reforms, such as early capital account liberalization, rendered them inherently crisis-prone. Once they found themselves in a crisis situation, but simultaneously within the straightjacket of a formal IMF programme, they were in no position to experiment with heterodox policy instruments such as controls over short-term capital flows.

OTHER CHALLENGES TO THE WASHINGTON CONSENSUS: ALTERNATIVE SITES OF RESISTANCE

Mounting evidence from a number of national cases has clearly helped to undermine the intellectual appeal of the neoliberal policy agenda and the optimism associated with the early years of the Washington Consensus. However, significant challenges have also been directed at the prevailing
neoliberal orthodoxy on a variety of different platforms. Mounting protests have emerged in recent years against the costly social consequences of neoliberal restructuring at local and national levels. The rise of the Zapatista movement and the Chiapas civil war in Mexico in 1994 could be identified as a prototype local level resistance to the regressive redistribution effects of neoliberal restructuring.\textsuperscript{13} At the level of the nation state, striking examples include the massive protests in Argentina following the crisis of 2001, widespread protests and riots in Indonesia and other countries following the Asian crisis, and the major protests mounted in Peru against the negative consequences of the neoliberal reform process. In many countries, including Turkey, social protests have been more sporadic but nevertheless present. At a different level, the opposition of certain powerful groups headed by trade unions within the industrialized countries to important components of neoliberalism such as trade liberalization has no doubt strengthened the challenge to the Washington Consensus, in much the same way as the Thatcher–Reagan experiments in the UK and the USA in the early 1980s reinforced the spread of neoliberal economic policies in the developing countries.

Another source of resistance has been at the level of the emerging global civil society through the medium of the global non-governmental organizations (NGOs), with the protests at the meeting of the World Trade Organization (WTO) in Seattle in early 2000 precipitating a wave of similar protests in Prague, Rome, Quebec and elsewhere, principally targeting the key institutions of neoliberal globalization such as the IMF, World Bank and WTO. These global NGOs exploit the advantages of globalization in the realms of technology and communications to present a truly international challenge to neoliberalism, which itself is a global phenomenon. Admittedly, the so called ‘anti-globalization’ movement — or perhaps more accurately, the ‘alternative globalization movement’ — does not represent a coherent whole or a monolithic bloc with a consistent set of demands, but rather a collection of interests.\textsuperscript{14} The most influential element within this group is formed by the developed country NGOs, notably the labour and environmentalist groups from the United States which are generally anti-free trade in their orientation. The alternative globalization movement also includes significant elements from the ‘south’, which favour improved access to developed country markets and technology developed in the ‘north’. Hence, there is a certain inevitable clash of interests between the different components of the movement, combining protectionist elements from the north and pro-free trade elements from the south, calling for improved access to developed country markets. In spite of its inherent ambiguities,

\textsuperscript{13} For examples of widespread resistance to neoliberal globalization at the local level, see Mittelman (2000).
\textsuperscript{14} On global civil society and global NGOs, see Scholte and Schnabel (2002).
organizational weaknesses and failure to present a clearly and consistently defined alternative agenda, however, the significance of the emerging global civil movement against neoliberalism should not be underestimated.

The kinds of pressures that we have tried to highlight so far are pressures from the periphery or challenges from below to the dominant structures and institutions of global neoliberalism. However, an important rethinking process has also been occurring in recent years within the dominant establishment itself. Hence, in addition to pressures originating from below that we have already identified, a powerful set of pressures from above has been operating in such a way as to modify the underlying edifice of the neoliberal policy agenda. Both the World Bank and the IMF have been trying to respond to serious criticisms levelled against global neoliberalism, notably in the realms of the reform of the international financial architecture and the process of poverty alleviation. From the response of these key multilateral institutions one can start to detect the salient elements of a Post-Washington Consensus that effectively constitutes a synthesis of national developmentalism and the neoliberal policy agenda itself.

TOWARDS A POST-WASHINGTON CONSENSUS: BASIC TENETS OF THE EMERGING ESTABLISHMENT PERSPECTIVE

It is possible to discern a noticeable shift in the policy focus of the key Bretton Woods institutions in recent years away from a hard-core neoliberalism to a new kind of synthesis which could be described as the emerging Post-Washington Consensus. Arguably, the process started in the World Bank at an earlier stage than in the IMF: there has been a renewed interest in poverty and governance issues at the Bank, which began in the early 1990s.15 Research and publications, particularly influenced by the revisionist accounts of the East Asian success, emphasized the importance of institutions and the need to improve the performance of the state as a necessary ingredient of market-oriented reforms. Research into the transition economies of the post-communist world appeared to provide additional support for the claim that institutions matter and the performance of the state needs to be improved in all kinds of transitional economies. Similarly, there was some recognition at the Bank that persistent poverty could not be eliminated simply through the expected trickle-down effects of improved efficiency and rising growth.

15. For World Bank studies emphasizing the importance of good governance and the need for increased emphasis on poverty reduction, see World Bank (1990), 2000. For the influential report published by the World Bank on the ‘Asian Miracle’ stressing the role of the state and the importance of effective institution building in the development process, see World Bank (1993). On transition economies, see World Bank (1996), and on the state, see World Bank (1997).
Compared to the Bank, the IMF tends to be a more enclosed and a less heterogeneous organization, less open to self-criticism. It is perhaps not surprising therefore that serious reform initiatives have come at a later stage. The Asian crisis of 1997 proved to be a decisive turning point in this context: for the first time in its history, the IMF was confronted with serious criticism from the dominant establishment concerning its handling of the crisis. It was accused not only of failing to predict the crisis, but also of actually making things worse in the aftermath. The Asian crisis was also important in terms of producing a serious rift between the two Bretton Woods institutions — again for the first time for many decades. Following the rethinking process that has occurred, the IMF now tends to pay far more attention to regulatory reforms, notably in the context of the banking and financial system, and recognizes far more than in the past the importance of strong institutions and ‘good governance’.  

Needless to say, it would be wrong to talk about the PWC as a monolithic entity. The work of the Nobel Prize winning economist, Joseph Stiglitz, who occupied a critical position as the chief economist of the World Bank at the time of the Asian crisis, has been particularly influential in providing the intellectual backbone to the emerging PWC, but a number of other major figures within the dominant academic and policy-making circles of North America have also played a significant role. Dani Rodrik, Paul Krugman, Stanley Fischer, William Easterly and Ravi Kanbur have all made important intellectual contributions in challenging the basic precepts of the dominant orthodoxy.

Nevertheless, in trying to present a picture of the PWC, it would be useful to focus on the work of Stiglitz for two major reasons. First, as a highly respected academic economist and a key figure at the World Bank, his criticisms have carried much weight. The IMF is quite used to being criticized, but until the Asian crisis, such criticism had originated primarily from the ‘periphery’ — intellectuals and policy-makers in the Third World, or radical intellectuals in the ‘north’ who were located on the margins of the academic and policy-making circles. With the onset of the Asian crisis, however, the IMF especially became the object of serious criticism from the ‘centre’, within the key Bretton Woods institutions themselves. Stiglitz was particularly vocal in his criticisms of the IMF, and his views, more than those of any other economist, have been widely publicized. Second, in a number of his recent publications he has tried to provide a coherent

16. See, for example, the speeches made by Stanley Fischer (2002) who, as the Vice-President of the Fund, played an active role in this self-evaluation process following the Asian crisis.
17. Among the influential contributions in this context are Easterly (2001); Krugman (1990); Rodrik (1997, 1999).
18. The key elements of his criticisms concerning the IMF have been summarized in Stiglitz (2002). The fact that he was awarded the Nobel Prize during this period undoubtedly contributed to the publicity that his views received.
alternative to the basic pillars of the Washington Consensus.\textsuperscript{19} Based on the contributions of Stiglitz, we can provide a concise stylized picture of the PWC that has increasingly influenced the overall thinking process of key institutions such as the World Bank and the IMF in recent years.

Perhaps the key element of the PWC is the recognition that states have an important role to play in the development process. Within neoliberal orthodoxy, expanding the domain of the market had necessarily meant reducing the domain of the state in the economy. Whilst the PWC also favours liberalization of the economy and greater reliance on the market, states and markets are conceived of as complementing rather than substituting for each other. The role of the state in fostering the development of the market is considered to be critical in a number of important respects — the underlying vision no doubt influenced by the revisionist, institutionalist accounts of East Asian success in the pre-crisis era.

In highlighting the activist role of the state in a predominantly open and market-oriented environment, certain aspects receive particular attention. There is a clear emphasis on the regulation of the financial system, based on the recognition that excessive risk-taking by undercapitalized banks can be a major cause of crises: proper regulation of the financial system is important in terms of mobilizing capital, giving depositors more confidence in the banking system and improving allocation of investment. State support for education is considered to be critical in supplying high quality manpower, while the role of the state in providing infrastructure (or, at least, taking regulatory action to ensure the private provision of infrastructural services such as transportation at reasonable prices) is also recognized. Another vital role for the state is the development and transmission of technology (such as agricultural extension services). Finally, states can help promote equality and alleviate poverty — an acknowledgement of the fact that such policies in East Asia have contributed to overall growth.

A certain similarity can thus be detected between the PWC and the structuralist logic underlying national developmentalism that preceded the neoliberal era. Market failures are considered important and need to be corrected by active state intervention. Yet, the logic of the PWC goes one step further than national developmentalism, in line with the neoliberal critique, by focusing on the question of how to improve the performance of the state and avoid government or state failure in the first place. The important contribution of Stiglitz in this context is to highlight the fact that the effectiveness of states can be improved by using market-like mechanisms. An interesting symmetry is established by noting that states are important for the effective functioning of markets but also that markets or market-like mechanisms are important for the effective functioning of states.

\textsuperscript{19} For a useful exposition of the basic propositions associated with the PWC, see Stiglitz (2001).
The importance of the market for improving the performance of the state embodies the following crucial elements. First, internal incentive structures and reward systems are critical for improving the quality of state bureaucracy. Second, competition is crucial to governmental efficiency; states can help to stimulate competition and benefit from competition themselves. States can create competing public agencies and encourage private firms to compete with public agencies. Indeed, competition is arguably more important than private ownership per se. State-owned firms have managed to perform as effectively as private firms when they have been subjected to competitive pressures. Hence, privatization at all costs which fails to pay sufficient attention to competition and ignores the role of a proper regulatory infrastructure is inconsistent with the logic of the PWC.

There is a clear recognition that the international economy during the recent era has failed to provide a sufficiently attractive environment for development. Private capital flows to the ‘south’ are heavily concentrated in certain countries. Aid flows have declined drastically in recent years and continued restrictions by developed countries over market access in key areas like agriculture and labour-intensive manufactured goods continue to constitute a major barrier to the exports of developing countries. The basic precepts of the PWC are thus not confined to the domestic sphere but also embody an international dimension. Industrialized countries can contribute to development by increasing aid and market access to the products of the Least Developed Countries (LDCs).

A key element that distinguishes the PWC from the early neoliberal agenda is its recognition of the importance of a change in institutions as an essential component of the new development strategies. Creating effective institutions becomes part and parcel of successful development. Similarly, much more emphasis is given to social and income distributional consequences of economic policies. For example, improved education and health are not merely instruments in terms of increasing growth but also constitute ends in themselves. In achieving fiscal discipline, attention is centred on where expenditure cuts are concentrated. If deficit reduction is achieved through cuts in government expenditures in education and health, then growth will be jeopardized.

Finally, the growing recognition of the importance of democratic regimes in creating transparent and accountable states is becoming one of the hallmarks of the emerging PWC. This aspect again contrasts sharply with the earlier days of the Washington Consensus. The hard-line versions of neoliberal thinking, in line with its Hayekian political economy foundations, clearly underestimated the importance of democracy and democratic institutions in the effective implementation of the reform process. Indeed, there was an active attempt to depoliticize the economic decision-making process, if not the society at large, and to restrict the domain of democracy as a means of fostering the smooth and speedy implementation of market-based economic reforms. Subsequent experience in many parts of the world, from
Latin America to post-communist Eastern Europe, has clearly demonstrated the costs of attempting to combine neoliberal economics with illiberal democratic forms of governance — costs which have manifested themselves in the form of widespread corruption and state failure, as well as the human costs of the authoritarian regimes themselves.  

THE EMERGING POST-WASHINGTON CONSENSUS IN CRITICAL PERSPECTIVE

There is no doubt that the kind of synthesis that forms the intellectual basis of the PWC represents a considerable improvement over the rather simplistic neoliberal understanding of development that had constituted the very basis of the earlier Washington Consensus. Not only is the need for an active role for the state in dealing with important market failures, most notably in the realm of finance, duly recognized, but attention is also given to the fundamental issues of how to improve the performance of the state itself in trying to overcome market failures. The latter issue certainly had not received any serious attention in the pre-neoliberal era in the age of national developmentalism. Structuralist development theorists had assumed that ‘the state’ or ‘planners’ would always act in a benign fashion in the public interest, failing to consider the political and institutional pre-requisites for effective state intervention in the process. The new synthesis embodied in the PWC represents progress over the structuralist and neoliberal formulations by trying to tackle the question of how to improve the performance of the market and the state simultaneously through their mutual interaction. It also recognizes the crucial role that institution-building and democratic governance can play in the process of successful development — elements that had been woefully neglected by the neoliberal hardliners. Similarly, the PWC represents a more refined understanding of development through a shift of focus on growth and efficiency to a more nuanced understanding of development that emphasizes the importance of additional policies to deal with key social problems such as pervasive unemployment, poverty and inequality.

In spite of the obvious strengths of the emerging PWC, however, a closer investigation also reveals some rather striking limitations, particularly as the new line of thinking is put into practice by the key international organizations such as the World Bank, the IMF and the WTO. We believe that a number of these limitations particularly need to be highlighted.

20. For an attempt to deconstruct the costs of trying to implement neoliberal reform in the context of an illiberal democracy with reference to the Özal era in Turkey, see Öniş (2003).

21. For existing critiques of the emerging PWC, see Fine et al. (2003) and Jayasuriya and Rosser (2003). This article tries to go significantly beyond these existing critiques.
The PWC’s new emphasis on institutions represents an important and useful recognition that markets do not function without supporting state and social arrangements. Such arrangements include cohesive, market-driven state agencies, systematic public–private exchanges and collective private sector institutions capable of addressing specific development problems. Yet the PWC has not offered a politically viable route towards the developments of these arrangements.

In the practical application of the new policy agenda, it is possible to identify a systematic bias towards domestic reforms as opposed to systemic or global reforms. For example, the IMF has, in recent years, been emphasizing the importance of regulatory reforms, particularly with reference to banking and finance. This represents a shift in its approach away from a single-minded concern with short-term stabilization to longer-term structural and institutional reforms designed to improve the performance of the market mechanism over time. Yet, at the same time, the IMF has been totally impervious to suggestions involving the implementation of heterodox policy instruments such as temporary short-term capital controls that have proved to be quite successful in certain national contexts. Indeed, it has been impervious to any kind of attempt to deal with endemic financial crises in the semi-periphery, as a global market failure would necessarily require global measures such as an internationally co-ordinated Tobin tax (an international tax on foreign currency transfers) on short-term capital flows, as an integral part of reforming the international financial structure. It is fair to say that both the IMF and the World Bank tend to locate the principal source of frequent financial crises squarely in the domestic political economies of the debtor countries concerned (see Armijo, 2001). Hence, the focal point of their attention becomes that of improving the regulatory structures of the countries concerned at the expense of all other considerations.

Self-interest and power relations have been much in evidence as the overriding factors in the history of international economic relations in the post-World War II period. The hierarchy in economic and political power has been the key determinant of economic outcomes not only between developed and developing countries, but also among the developed countries themselves, with power relations from the most powerful in the centre spreading to the periphery in concentric circles. The conflicts between the United States and Japan and Germany on trade and exchange rate issues

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22. Some IMF officials have recognized that controls over short-term capital flows might have played a positive role in avoiding financial crises in Malaysia and Chile: see Ariyoshi et al. (2000: 22–3, 26–8, 37) and Robinson (1999). Nevertheless, the IMF has been rather unreceptive to arguments such as those of Wade (1998) that emphasize the global causes of emerging market crises and, hence, propose the reform of the international financial architecture with special emphasis on capital controls.
are well documented. The dominance of developed countries in the world economy is extensive, encompassing production, finance, trade, and technology: 90 per cent of all patents originate in these countries, and two-thirds of world trade is controlled by only 500 transnational corporations (TNCs), again originating mostly from these countries (see Kozul-Wright, 2003). As developing countries seem to have entered a race to attract foreign investment at all cost, governments even in developed countries seem to be facing difficulties in coping with the growing power of these enterprises. Despite the considerable progress developing countries have made towards trade liberalization in recent years, developed countries have been slow to replicate this in terms of granting increased market access for developing country exports.

In these hierarchic power relations dominated by self-interest, the demands of developing countries for a more democratic international economic environment have fallen on deaf ears — even when the developing countries were able to raise a united and powerful voice in 1974, for the creation of a New International Economic Order. The radical reform of the international economic system may still be relevant for the emergence of an international environment more conducive to development. In particular, there is a need to democratize international financial institutions, to give them a pro-Third World orientation, and to establish effective international mechanisms for the regulation of TNCs, with the objective of curbing their monopoly power and controlling the massive short-term capital flows which are a source of short-term instability in developing countries. However, the prospects for developing countries to repeat even their abortive challenge of 1974 now seem rather slim, given the deep divisions among them and the increasingly lopsided international power structure.

This emphasis on skewed power relations in the international sphere should not detract attention from equally pressing issues on the domestic front which are also sidelined by the PWC. The PWC’s emphasis on independent regulatory bodies with the objective of preventing political interference ignores the formidable obstacles they may face in societies dominated by powerful vested interests, blocking their effective operation. Although there has been some progress towards democracy within individual developing countries, the political obstacles hampering the spread of the benefits of development to the lower strata of the population are still in place. The state may not fulfil even its limited role under the PWC, as the weakening of the state apparatus and the very notion of effective state intervention have been substantially eroded under neoliberalism. The neoliberal practices of the past two decades may also have had a lasting impact on state agents and officials alike, impairing their ability to readjust to a new agenda involving fresh thinking in spheres such as poverty alleviation. It is unlikely, therefore, that any efforts on the part of national governments towards poverty alleviation and more equal income distribution will have a significant impact, unless the obstacles preventing the poor and the
underprivileged from expressing themselves as a powerful political force are
removed.

One might also question the sincerity of this renewed concern of key
Bretton Woods institutions with income distribution and poverty allevia-
tion. A whole set of issues then needs to be considered, including the
feasibility of significant redistribution within the broad fiscal constraints
of neoliberal re-structuring. Here the distinction between rhetoric and
action is important. The proponents of the PWC, in particular the Bretton
Woods Institutions, seem to shy away from carrying out a balanced analysis
of the neoliberal globalization process, and especially from identifying the
factors that lead to the marginalization of whole regions and large sections
of the population within the developing countries, which denies them the
benefits of this process. They also ignore mounting evidence linking pro-
gress in poverty alleviation with a whole set of distributional issues, includ-
ing ownership patterns. Attempts to link these considerations with poverty
met with opposition from the higher echelons of power, including the US
Treasury, leading to the resignation of Ravi Kanbur, chairman of the team
preparing the report (see Kanbur, 2001; Wade, 2001c). Proponents of the
PWC emphasize the importance of increased capital flows, including official
aid, and market access for countries of the south. As the reform of key
international institutions has been on the agenda for more than three decades
with little progress, serious questions can be raised about the possibility of
translating the favourable rhetoric on poverty and income distribution into
action in the presence of severe domestic and international constraints.

It is also important to note that poverty and inequality issues are effec-
tively sidelined in emerging markets like Argentina and Turkey which
experience frequent financial crises. The IMF becomes the dominant exter-
nal actor in the context of such countries, with the World Bank typically
relegated to secondary status. Given the focus of the IMF on short-term
adjustment and regulatory reforms, conditions relating directly to poverty
and inequality fail to be incorporated into its stand-by programmes in these
countries. In fact, the obsession of these programmes with the creation of a
primary budget surplus necessarily interferes with social sector spending and
calls into question the sincerity of the IMF on the poverty alleviation issue.
In fact, one gets the strong impression that the Bretton Woods institutions
are using the poverty issue as a pretext for broadening and deepening the
neoliberal agenda.

The ability to increase employment is of crucial significance not only for
economic reasons but also for maintaining social cohesion in the countries
concerned, but the employment issue, as an explicit objective in its own
right, is not sufficiently emphasized by the PWC. This neglect can be traced
more broadly to the capture of domestic economic policy agendas of most
developing countries by the Bretton Woods institutions. Even countries that
do not have formal agreements with these organizations seem to have been
carried away with a vague globalization objective and to be devoid of national development objectives. The present international economic environment is not conducive to successful industrialization of developing countries — not least because national governments have lost the bulk of the tools they have traditionally used for this objective and neither the Washington Consensus nor the PWC has prioritized it. Crucial decisions concerning the need to develop a strong domestic technological base are similarly relegated to the background, so that the primary emphasis in obtaining technology is implicitly placed on foreign investors. This limits the crucial role of domestic actors, even though the experience of successful countries has shown that the factors which are key to that success are a high investment rate and emphasis on industrialization through selective, targeted industrial policies focused on capital-, skill- and technology-intensive activities — areas which, propelled by rapid export growth, have a high domestic value-added content.

The poor record of the neoliberal model in generating employment may be traced to some of the internal inconsistencies of the policy package that it involves. The emphasis on financial liberalization and the windfall gains it has offered through speculation and risk-taking have meant the accumulation of economic surplus in the hands of rentiers, a class of people not renowned for their enthusiasm for industrial investment. Without investment in directly producing sectors, relying on extending neoclassical wisdom to this sphere through emphasis on labour market flexibility is not likely to generate employment on a scale sufficient to alleviate the immense pressures on the supply side of labour markets and bring about a significant turnaround in the prospects of unskilled labour. The concern of PWC with education and human capital formation is justified but is not sufficient. Both the demand and supply sides of the labour market need to be taken into account. Education fetishism results in a certain lack of emphasis on key issues that are directly relevant to the debate on employment prospects. For example, the existence of a large pool of highly educated manpower without sufficient growth in directly producing sectors like manufacturing to provide productive employment for them may represent a source of unemployment and brain drain. Likewise, the absence of global redistributive mechanisms and the fact that channels of international migration for unskilled or semi-skilled labour are largely closed are issues which tend to be underplayed in discussions pertaining to employment prospects in the south.

TNCs constitute highly powerful actors in the world economy. The common element between the Washington Consensus and the PWC is the protection of TNCs from regulation by host states. By definition, TNCs are large oligopolistic firms that wield considerable economic and political power exercised on a global scale — hence, their activities need to be regulated at the global level. But the emerging agenda of the PWC does not include a balanced approach towards the regulation of TNCs, which would involve the interests of consumers and host countries.
The PWC also faces a formidable dilemma in reconciling its emphasis on global market integration with democratic governance. In the process of global market integration, national governments have been stripped of their powers to determine policies in the socio-economic realm. Although the key Bretton Woods institutions have been apportioned part of the blame in some notable recent cases such as Turkey, national governments are still held responsible for the ill effects of global market integration, in particular for the adverse socio-economic impact of severe crises that have accompanied financial opening. The inability of governments — deprived of the necessary tools — to deal effectively with these problems has led to a loss of their credibility in the eyes of the electorate. At the same time, the emphasis of the PWC on closer interaction between state and market to improve performance fails to recognize that global market integration has seriously tilted the balance of power between these institutions in favour of the market. The inability of the state to impose rules and regulations to keep market power in check has posed problems for both democratic accountability and political legitimacy.23

POWER RELATIONS AND THE LIMITS ON ACCOUNTABILITY

The key Bretton Woods institutions will continue to play a prominent role in the implementation of the PWC, as they have done under the Washington consensus.24 This could lead to the justifiable charge that the very institutions which may be responsible for much of the damage under neoliberal reforms, are now in the driver’s seat in a process set up to rectify it. One relevant problem here is a credibility gap that exists between these organizations and the development community at large.

Although we do not have full knowledge of the decision-making processes within the Bretton Woods institutions, it is fair to assume that they are not monolithic organizations; nor do they demonstrate a high degree of agreement within major segments in their internal structures. The shift in World Bank policy from basic needs to structural adjustment in the 1980s and back to poverty in the 1990s, and the more recent changes within the IMF broadening its agenda to encompass governance issues, are cases in point. These changes reflect not only shifts within the organizations, but also the interests of the more powerful countries, which are determined by the changing international environment. This leads to the serious charge that the organizations act in the interests of the latter countries, most notably the

23. In the formulation of our views in this paragraph, we have benefited from the comments of one of the anonymous referees.

24. We focus our attention here on the IMF and the World Bank. We recognize that the WTO also needs to be taken into account, but that requires separate investigation.
US. The Washington Consensus itself may have been moulded by these institutions with a close eye on US interests (see, for example, Gore, 2000: 790). More specifically, one could argue that the primary concerns of the US were to achieve market access for American exports, and that US interests were compatible with moderate rates of economic growth in emerging markets, but not with the major breakthroughs in industrialization that would threaten US industry over time, as Japan and South Korea had done so successfully in the past. Policy shifts towards foreign trade liberalization and export orientation in many developing countries, through neoliberal reforms under the auspices of Bretton Woods institutions, have thus been linked as much with the competitiveness problems of US industry and the desire to increase the debt-repayment capacity of these countries, as with growth and efficiency considerations associated with greater export-orientation. More recently, there were widespread press reports that IMF support of stabilization efforts in Turkey were linked with the Turkish stance vis-à-vis US policy in Iraq.

The current emphasis of the Bretton Woods organizations on democratic governance is hardly consistent with their past record. Turkey’s adoption of neoliberal policies in early 1980 in close collaboration with the World Bank (through successive structural adjustment loans) and the IMF through a three year stand-by agreement, for example, took place against the background of a repressive military regime. The fact that neither institution showed any scruples about working in tandem with the military regime, and that both remained silent when key democratic institutions and activities of powerful NGOs were strictly curbed, reduced their credibility when they tried to play the role of champions of democracy and good governance shortly thereafter. In the drawing up of structural adjustment loan agreements, which represented by far the biggest transformation of Turkish economic policies, the World Bank kept a low profile, while a great deal of secrecy surrounded the standby-agreements that Turkey signed with the IMF during this period. The link between the rise of neoliberal policies and authoritarian regimes is not, of course, confined to Turkey: Chile after 1973 and Argentina after 1976 offer other notable cases.

In terms of their basic structures, decision-making processes and other operations, the World Bank and IMF hardly conform to the stipulations of good governance. This has led to calls that they should set an example by applying standards of transparency, accountability and participation to themselves (see Woods, 2000). To the extent that implementation of neoliberal policies has — through the deliberate weakening of the state apparatus and encouragement of rent-seeking — contributed to corruption, these institutions again find themselves in the paradoxical situation of repairing the damage to which they themselves contributed. The deliberate depoliticization of society at all levels through repressive regimes in Turkey and elsewhere was crucial for neoliberal reforms to take root. This probably explains the weakness of the opposition to neoliberal policies and the
inability to provide a viable alternative. However, the same process of depoliticization may be responsible for the slow progress towards the emergence of effective NGOs and the transparency and good governance in public administration that these institutions now emphasize.

The World Bank, which is the more developmental of the key Bretton Woods institutions, needs to explain why it was silent on the poverty issue throughout the 1980s, when neoliberal policies implemented during that period did a great deal of damage in this sphere (see Şenses, 2001: 39–44). Even after the re-emergence of poverty alleviation as a major objective during the past decade, the record of the Bank and IMF in this area have done little to close the credibility gap. The recent Turkish economic programme, for example, which was drawn up and implemented in close collaboration with the IMF, in the midst of a deep economic crisis which had a devastating impact on poverty, was silent on this. Similarly, the efforts of the World Bank to come to grips with the problem have fallen far short of what was needed. As long as the commitment of these organizations to the poverty alleviation objective is in doubt, the impression will persist that they have used it both to cope with the increased criticism that neoliberal reforms have attracted and also to broaden and deepen these reforms.25

The ability of Bretton Woods institutions to deal with the problems faced by developing countries has been increasingly questioned in recent years. The failure of the IMF during the past decade in such crucial spheres as the prediction and prevention of short-term economic crises in various parts of the world, and in effectively dealing with them once they arise, has been a source of major criticism, with serious questions raised about the future of these organizations.26 The failure of the IMF, in particular, to learn from past mistakes provides additional ammunition for the critics and contributes to the erosion of confidence in the organization. For example, in Turkey neither the IMF nor domestic policy-makers have learned the necessary lessons about the hazards of financial liberalization without sufficient regulation and legal safeguards. As a result, capital account liberalization after 1989 resulted in successive financial crises with dire consequences. Domestic financial liberalization per se was not immune from financial crises either, as the ‘bankers’ crisis’ of 1982 clearly demonstrated. The failure of the IMF to warn Turkish policy-makers about the risks and dangers of overexposure to short-term external capital before the successive crises of the past decade, suggests that the organization has a disturbingly short memory, as the Turkish crisis of the late 1970s could be traced to a similar phenomenon.

25. In the case of Turkey, for example, the extension of neoliberal reforms in the domain of agriculture, social security and the labour market has been closely linked with this objective.
The involvement of these institutions in neoliberal restructuring has been extended to most developing countries in a broad range of policy areas. This, together with the broadening of their conditionality into the political sphere, has been instrumental in eroding self-reliance and domestic problem-solving ability in these countries. One could argue that the excessive involvement of the IMF in the domestic policy-making process of individual countries and the uniform set of conditions imposed on them, regardless of their respective institutional and political capacities, has effectively prevented these countries from generating appropriate domestic responses to their problems, thus damaging the learning process of institution building. Perhaps in certain circumstances reform could only be engineered in a top-down fashion. Yet the top-down approach has led to a situation where reforms have been engineered without generating the requisite social consensus, which has undermined the longer-term viability of the reform process and the effectiveness of some of the key regulatory institutions imposed from above.

Finally, while the PWC stresses the importance of creating transparent and accountable institutions as a basis for improved economic performance, the focus of attention is the domestic level within the domain of the individual nation state. The same kind of concern does not extend to creating transparent and accountable institutions in the international sphere. Issues concerning the transparency and democratic accountability of the IMF, the World Bank and the WTO, as well as problems arising from their domination by developed country interests, receive only cursory attention from the intellectual proponents of PWC and from the institutions themselves.

All these considerations point towards a deeper, more fundamental problem that lies at the heart of the emerging PWC — namely the inability or unwillingness to address major issues pertaining to power and its distribution both at the domestic and international levels. The PWC represents a response by the dominant establishment to the deficiencies of the neoliberal agenda and an attempt by them to overcome such deficiencies through a set of reforms that takes the existing structures of power as given. This may be justified in the short term, on the grounds of what is practical and feasible in terms of improving economic performance. But in the long run, such reforms may represent a partial and insufficient response, given the scale and depth of the problems involved, which include increased unemployment, poverty and inequality at the global level.

CONCLUDING OBSERVATIONS

The very foundations of the neoliberal orthodoxy that informed the key Bretton Woods institutions have been severely shaken in the context of the 1990s. The process of neoliberal restructuring has been associated with weak
growth performance, persistent poverty, rising inequality and endemic crises with costly ramifications. Countries that have performed better than average have typically been those that managed to deviate from rigid neoliberal norms in certain critical respects. Consequently, the dominance of the neoliberal paradigm has been challenged both from the centre and the periphery, from inside and outside the dominant academic and policy-making establishment. Undoubtedly, it was criticism within the establishment that was decisive in the gradual progression towards a new kind of consensus among the key international financial institutions, labelled the Post-Washington Consensus. The intellectual contributions of scholars like Stiglitz also played a critical role.

The basic precepts of the emerging Post-Washington Consensus represent a novel synthesis of the two previously dominant paradigms in development theory and policy, namely national developmentalism with its emphasis on the critical role of the state in overcoming market failures, and neoliberalism with its unquestioning belief in the benefits of the free market. The new approach recognizes the importance of the state in the context of open markets and a more liberal policy environment. But, at the same time, it recognizes the need to avoid state failure which, in turn, requires institutional innovation and democratic governance. Furthermore, the new approach places significant weight on the need to tackle poverty and inequality as objectives in their own right, thus moving away from an exclusive preoccupation with growth and efficiency objectives. In all these respects, the emerging PWC represents a more progressive approach to development as compared with the naïve and unqualified application of the Washington Consensus.

Nevertheless, there are also important limitations within the PWC. A central criticism is that it adopts a rather narrow and technocratic approach towards state–market interactions at both the national and global levels. It takes the existing power structure as predetermined. Hence, it fails to address the fundamental power relations and asymmetries of power that exist between classes at the level of the nation state, and powerful versus less powerful states in the global economy, although it is these very power relations that need to be challenged if key development issues are to be tackled in a comprehensive manner. In this sense, the horizons of both the World Bank and the IMF appear limited.

It is also important to recognize that the broad agenda of the emerging PWC is not equally welcomed or shared by these institutions. There is no doubt that the IMF experienced a serious identity crisis after the Asian crisis and has been trying to reform itself, perhaps more intensively than at any other time in its history. Nonetheless, the IMF has a more restrictive vision or understanding of what ought to be the fundamental components of the new PWC. This has important implications, as the IMF continues to be the dominant actor especially for the more advanced, crisis-ridden ‘emerging markets’ of the semi-periphery, while the World Bank — with its more
progressive vision of the PWC — occupies a secondary and supporting role in such contexts. The focus of the IMF on short-term financial discipline and regulatory reforms therefore constitutes a serious additional constraint to the application of some of the more progressive elements of the PWC, designed to deal with poverty, inequality and the longer-term competitiveness of national economies. Industrialization, which was the overriding development objective under national developmentalism, was wiped off the agenda under neoliberalism. There is no sign that this objective will be reactivated under the PWC, even though the historical experience of developed countries (as well as those of successful industrializers in the Third World) has provided sufficient evidence that progress in this sphere goes hand in hand with developing domestic technological capabilities and generating employment.

The spread of neoliberal ideas to developing countries and to the post-communist transition economies has had a self-perpetuating effect, reinforcing the view that there was no alternative. The criticism levelled against these policies by the emerging Post-Washington Consensus, while falling far short of dealing with the main issues involved, still represents a crack in the neoliberal armour; it may lead to fresh thinking and accelerate the search for viable alternatives. The question remains as to whether the PWC — together with the flourishing alternative globalization movement and against the background of increasing distributional imbalances at all levels — will bring about such a change, and how quickly.

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What strategies are viable for developing countries today? The World Trade Organization and the shrinking of ‘development space’

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ABSTRACT

The world is currently experiencing a surge of international regulations aimed at limiting the development policy options of developing country governments. Of the three big agreements coming out of the Uruguay Round – on investment measures (TRIMS), trade in services (GATS), and intellectual property rights (TRIPS) – the first two limit the authority of developing country governments to constrain the choices of companies operating in their territory, while the third requires the governments to enforce rigorous property rights of foreign (generally Western) firms. Together the agreements make comprehensively illegal many of the industrial policy instruments used in the successful East Asian developers to nurture their own industrial and technological capacities and are likely to lock in the position of Western countries at the top of the world hierarchy of wealth. The paper describes how the three agreements constitute a modern version of Friedrich List’s ‘kicking away the ladder’. It then outlines some needed changes in the way we think about development and in the role of multilateral organizations. It concludes that the practical prospects for change along these lines are slender, but not negligible.

KEYWORDS
Developmental prospects; trade agreements; property rights; articulated economies; World Trade Organization; Western dominance.

INTRODUCTION

Developing countries today, as a group, are being ever more tightly constrained in their national development strategies by proliferating regulations formulated and enforced by international organizations.
These regulations are not about limiting companies’ options, as ‘regulation’ normally connotes; rather, they are about limiting the options of developing country governments to constrain the options of companies operating or hoping to operate within their borders. In effect, the new regulations are designed to expand the options of developed country firms to enter and exit markets more easily, with fewer restrictions and obligations, and to lock-in their appropriation of technological rents.

Developed country governments, led by the US and the UK, are driving this proliferation of international market-opening and technology-rent-protecting regulations, using multilateral economic organizations, international treaties and bilateral agreements. They have come together to legitimize a level of intrusion into the economies and polities of developing countries hitherto frowned upon by the international community, framing the intrusion in the shape of international agreements. Ironically in view of the common belief that globalization is weakening the power of states to regulate, they are requiring developing country governments to regulate – themselves and their national firms – more, not less. At the same time, the US and the EU have not followed through on their general commitments to improve market access for developing countries. Both have kept large parts of their economies off the negotiating table.

The net result is that the ‘development space’ for diversification and upgrading policies in developing countries is being shrunk behind the rhetorical commitment to universal liberalization and privatization. The rules being written into multilateral and bilateral agreements actively prevent developing countries from pursuing the kinds of industrial and technology policies adopted by the newly developed countries of East Asia, and by the older developed countries when they were developing, policies aimed at accelerating the ‘internal’ articulation of the economy (about which more below). At the same time, developed country tariff escalation in sectors of interest to developing country exporters limits their export growth and their rise up the value chain.

All this constitutes a shrinkage not only of development space, but also of ‘self-determination’ space. It ties the hands of developing country governments ‘forever’ to the North’s interpretation of a market opening agenda (‘you open your markets and remove restrictions on incoming investment, in return for [promises of] improved access to our markets’). Here I shall show how the main international agreements from the Uruguay Round – TRIPS, TRIMS and GATS – systematically tip the playing field against developing countries. The agreements do not do for developing countries what their sponsors, the G7 states, say they will do, and they do help to lock in the economic, political and military dominance of these and other states in the core of the world economy.
Why does this matter? Partly for moral reasons. I describe a system in which bargains are struck between strong players and weak players. They each need – or see advantage in having – the cooperation of the others, so they reach agreements. But to the extent that bargaining is steered by morality, the balance of advantage in the agreements depends on which of two moralities prevails. One is the a-bit-better-than-the-jungle morality of ‘tit-for-tat’, or reciprocity, which sanctions that the agreements reflect relative bargaining strengths; thus the strong do best. The second is the all-men-are-brothers morality, which says that the strong have a duty to restrain themselves to help the weaker. This is the morality behind the decision of early twentieth century British judges to give trade unions legal privileges in order to force a degree of restraint on the part of employers. In what follows I bring out the extent to which the recent round of WTO agreements on intellectual property, investment, and trade in services expresses the a-bit-better-than-the-jungle morality, and show the implications of applying the all-men-are-brothers morality.

But the basis for not accepting the present agreements is not only moral. The case for ‘development space’ also rests on the costs to the world, including the citizens of the prosperous democracies, of making the creation of dynamic capitalisms in the non-core zone of the world economy even more difficult than it has been to date. The fear of the social instability caused by the unrestrained power of employers over employees drove the decision of those early twentieth-century British judges to choose the second morality over the first. Developed world policy makers would do well to keep this precedent in mind. Globalization erodes the insulation of the North from the responses to poverty, inequality and subordination in the South – including migration, imploding states, civil wars, religious fundamentalism and destruction of symbols of domination.

SHRINKING THE DEVELOPMENT SPACE 1: THE TRIPS AGREEMENT

The Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) was forged in the course of the Uruguay Round (1986–94), and entered into operation in 1994. It covers protection of trademarks, copyrights, industrial designs, data secrets, and patents (on drugs, electronic and mechanical devices, etc.). The big two are copyrights and patents. The agreement seems innocent enough. Under patents, all it does is to oblige WTO members to introduce minimum standards for intellectual property protection, and it provides a dispute resolution and enforcement mechanism. The minimum standards include: limits on states’ abilities to deny patents to certain types of products; a period of 20 years for all patents (many countries granted patents for shorter periods); and limits on states’
flexibility in the use of technologies or products patented in their territory, including states’ ability to insist on compulsory licensing. The agreement handicaps developing countries through both economic and political mechanisms.

TRIPS economic handicaps

The economic handicaps operate through the market for knowledge. The North is a net producer of patentable knowledge, the South a net consumer. Even in the case of Mexico, an advanced developing country and member of the OECD, domestic residents made only 389 patent applications in 1996, compared to over 30,000 from foreign residents (World Bank, 2002: 136). TRIPS raises the price of patentable knowledge to consumers and so raises the flow of rents from South to North. According to World Bank estimates, US companies would pocket an additional net $19 billion a year in royalties from full application of TRIPS. They own many patents in many countries required to tighten intellectual property protection, while TRIPS does not require tightening of US patent law.

TRIPS defenders say that the higher returns to knowledge generation in the North will yield even more innovation which will diffuse to the South. There is no credible evidence that this is the case (Helpman, 1993). In the case of copyright, tougher copyright protections raise the cost of scientific publications. Research libraries around the world paid out 66 percent more for scientific monographs in 2001 than they did in 1986 and got 9 percent fewer monographs for their money, and paid out 210 percent more for 5 percent fewer periodicals. These price escalations widen the North–South gap in access to scientific knowledge.

But it is not just a matter of the rising cost of knowledge in relation to the not-rising ability to pay of the South. It is also that as most natural science research is being privatised, less and less research is being done on issues from which the researchers and right holders are unlikely to receive a significant economic pay-off. This includes many problem areas of primary interest to populations in developing countries.

TRIPS political handicaps

The political handicaps operate through two main mechanisms. First, developing countries’ rights and developed countries’ obligations are unenforceable, while developing countries’ obligations and developed countries’ rights are enforceable. On paper, the rights and obligations of members look to be balanced between patent-holding (developed) and patent-using (developing) countries. In practice the agreement is skewed in favour of the developed countries, because of the difference in enforceability.

For example, the developing countries have a wide array of obligations
about what they allow to be patented and how they treat and enforce
patents. If they do not meet their obligations they may be taken to the
dispute settlement mechanism (DSM) of the WTO. The developed countries
supposedly have obligations too, directed at ensuring that their govern-
ments and firms do provide technology to developing countries. But the
agreement gives no recourse: nothing happens if they do not meet their
obligations. No developing country has taken a developed country to the
dispute settlement mechanism for not transferring technology. Why not?
Because the costs of mounting a case are high for a developing country, the
US and the EU may threaten reprisals, and the obligations of developed
countries with regard to technology transfer and everything else are vague.³

The second political mechanism is the use of the TRIPS’ standards by the
US and EU as merely the starting point for negotiating even tougher ‘TRIPS-
plus’ standards of patent protection in bilateral trade and investment treaties
(although the agreement’s minimum standards are themselves typically
much tougher in favour of patent holders than developing countries had
in place before the agreement).⁹ This will give the developing countries
even less protection under TRIPS than they have already.

Developing country representatives have argued for years that TRIPS
must be revisited. The response from the US and EU has been, ‘We are
happy to renegotiate, but there can be no change between [a favourite
phrase] the balance of rights and obligations struck in the Uruguay Round.’ This
is a good wheeze – because the developed countries effectively placed
themselves under no obligations in the TRIPS agreement. Indeed, the US
has been active in trying to re-open the TRIPS negotiations – so as to secure
even stronger protections for intellectual property. But in the face of devel-
oping country resistance it has recently abandoned this strategy, and is
relying more on tighter enforcement of the existing rules: making more
use of the threat to take a country through the WTO dispute resolution
process; more use of TRIPS review procedures to press countries to enforce
intellectual property rules; more use of informal bilateral pressure,
including threats to withdraw aid and to support rival states in geo-
political disputes, complaints to ministries or prime ministers about
unconstructive or ‘aggressive’ ambassadors in Geneva, and sweet deals
for those who cooperate;¹⁰ more intensive monitoring of countries under
the US’s Super 301 trade sanctions process; and more use of bilateral and
regional trade negotiations to require countries to implement even
stronger national intellectual property legislation than called for by TRIPS.

Tightening the noose: Doha and Brazil

Were the negotiations over TRIPS at the Doha Ministerial meeting of the
WTO, in 2001, not intended to improve the position of developing
countries? The Doha Declaration on ‘TRIPS and Public Health’ is widely
understood to have modified TRIPS sufficiently to improve developing countries’ access to certain drugs. To this extent it could expand – if developed countries deliver on their promise – developing countries’ TRIPS-consistent options in a humanitarian direction. But it does not expand their options in industrial transformation.

Even after the Doha modifications TRIPS leaves in place a much more restrictive environment for technology transfer than the older industrialized countries enjoyed during the early stages of industrialization and the new industrialized countries of East Asia enjoyed during theirs. Recall that Japan, Taiwan, and South Korea were each known as ‘the counterfeit capital’ of the world in their time. And the US in the nineteenth century, then a rapidly industrializing country, was known – to Charles Dickens, among many other aggrieved foreign authors – as a bold pirate of intellectual property. In all these cases foreign firms had little legal redress against patent- or copyright-infringers in those countries of the kind that they did have against infringers at home. But today, reverse-engineering, imitation, and many strategies of innovation to develop technology are either outlawed or made significantly more difficult by the high level of patent and copyright protection mandated by TRIPS. Thus, TRIPS raises significant development obstacles for many countries that the earlier developers did not face. These issues were not on the table at Doha.

The nub of the issue is caught in a recent pharmaceuticals dispute between the US and Brazil (which resembles the 1980s dispute between the US and Brazil over computers). Brazil has taken the lead among developing countries in developing domestic capacity to produce HIV/AIDS drugs at low cost. It has thereby helped to avoid a catastrophe on the scale afflicting many African and Asian countries. Brazil’s efforts have generated controversy regarding its intellectual property law. The government has relied on two particular articles of its 1997 industrial property law to advance the fulfillment of its national health objectives. Article 71 authorizes compulsory licences in the case of national health emergencies – it allows the government to authorize local producers to produce generic drugs needed to fight a national health emergency or to import from a generic producer elsewhere, despite patent protection. This article is generally understood to be consistent with TRIPS. While Brazil has not actually used this law to issue a compulsory licence, it has frequently used the threat of a compulsory licence to facilitate fairer negotiations with pharmaceutical companies regarding the terms of licencing to Brazilian companies and the prices of drugs in Brazil.

The Brazilian law also contains an article (Article 68) that authorizes licences when manufactured goods are not produced locally. If a foreign company has obtained a patent for a product or process in Brazil but does not establish local production within three years the law authorizes the Brazilian government to licence local producers to produce the good (the
term of art here is ‘local working’). This is the ‘industrial policy’ article, with application far beyond pharmaceuticals. By spurring foreign firms to establish local production it contributes to a more developmental foreign investment regime. But it is arguably in violation of TRIPS, and has been strongly opposed by the US.

The US brought a WTO panel dispute against Brazil in 2000. In June 2001 the two countries signed a communiqué announcing the withdrawal of the US challenge, but they also affirmed that the fundamental conflict over Article 68 remains unresolved. The US threatens that if the Brazilians use Article 68 to issue a compulsory licence for non-pharmaceutical products (as part of a wider industrial policy) the WTO case would be restarted. The signal sent to other developing countries is that emulating Brazil’s programme for distributing AIDS medicines is acceptable, but emulating Brazil’s efforts to use intellectual property rights policy as a tool of industrial strategy is not acceptable. This demonstrates the point made earlier, that expanded opportunities for TRIPS-consistent developing country action secured at Doha are for humanitarian relief, not industrial transformation.

**SHRINKING THE DEVELOPMENT SPACE 2: THE TRIMS AGREEMENT**

The Agreement on Trade-related Investment Measures (TRIMS), another product of the Uruguay Round, limits the development space of developing countries even more than TRIPS, because it covers a broader swathe of their economic activity.\(^{13}\) The central point about TRIMS is that it moves trade rules from the principle of ‘avoid discrimination’ between countries (the ‘most favored nation’ principle of the old General Agreement on Trade and Tariffs), to ‘avoid trade and investment distortions’. It interprets most ‘performance requirements’ on foreign firms as distortions, and bans or aspires to ban them.\(^{14}\)

The TRIMS agreement bans performance requirements related to local content, trade balancing, export requirements, and it also bans requirements on public agencies to procure goods from local suppliers. A country that tries to impose such requirements can be taken to the Dispute Settlement Mechanism, and will surely loose the case. In theory the complainant (normally the US or the EU) has to provide evidence that the specific requirement is distorting, but in practice the US and the EU do not; they simply assert that such requirements are distorting by definition, and – being dominant actors – their assertions generally prevail.

Moreover the US and the EU want to modify the current TRIMS agreement so as to ban all performance requirements, including for joint venturing, technology transfer, and research and development. At the Doha Ministerial meeting of the WTO in 2001 the US and the EU pressed
this agenda, but India and Brazil prevented the ban being approved. However, the language in the relevant part of the current TRIMS is not legally clear, and many developing countries fear that if they do use such non-banned performance requirements the US or the EU will still threaten to take them to the DSM – whose rulings, they have seen, are almost always in favour of the most restrictive interpretation of allowable performance requirements; and the threat to take them to the DSM may well be reinforced by other threats, such as to cut foreign aid, as noted earlier. What is more, states currently negotiating to join the WTO (the ‘accession countries’) are finding that the rules they are being asked to sign on to are even more restrictive than those for existing members. There is not a standard set of rules.

TRIMS defenders point to the exemption clauses, that allow categories of developing countries ‘special and differential treatment’. The catch is that the exemptions are defined only in terms of the time period for complying. The time period has to do with administrative and legal handicaps in getting up to speed on TRIMS enforcement. It has nothing to do with the time needed to nurture infant industries, nothing to do with competitiveness. In this fundamental respect the TRIMS agreement narrows the scope of ‘special and differential treatment’ allowable for developing countries, compared to the scope pre-TRIMS (Pangestu, 2002).

**SHRINKING THE DEVELOPMENT SPACE 3:**
**THE GATS AGREEMENT**

The General Agreement on Trade in Services (GATS) also came out of the Uruguay Round, and has been in a new round of intensified negotiations at the WTO since 2000. GATS represents the extension of WTO rules from trade in products to trade in services – including everything from banking, to education, to rubbish collection, tourism, health delivery, water supply and sanitation. ‘Trade’ includes companies setting up in a foreign country to provide services there, so GATS is also an investment agreement. Foreign investment in services accounts for roughly half of world foreign direct investment, and developing countries have been assured that complying with GATS commitments will boost FDI inflows.

The central thrust of the GATS, as with TRIMS (but not TRIPS), is market liberalization. The articles of the agreement are a list of ways in which governments should not interfere in the market, should not place barriers in the way of service trade between countries; and should not regulate the behaviour of multinational corporations operating in their country (World Development Movement, 2002; Raghavan, 2002; Sinclair, 2002). Because the responsibility for affordable provision of public services is fundamental to a government’s responsibility to its citizens – to the whole idea of social compact between government and taxpayers – the GATS
agreement is intruding even further into domestic political economy than the other two. It makes it next to impossible for developing country governments to protect their own service industries from competition from well-established foreign firms, in the way that virtually all the successful developers have done in the past.

For example, GATS requires ‘most favored nation’ treatment, such that a government must treat firms from all WTO members equally.\textsuperscript{15} GATS also requires ‘national treatment’, such that all foreign service providers must be treated at least as well as domestic firms. They cannot be required to use local suppliers, managers or staff, unless local firms are under the same requirement. And GATS requires ‘market access’, which prevents a government from putting a limit on the number of service suppliers or outlets and on where they operate. All this in the name of fairness.

However, GATS has a larger exemption provision than the other two agreements. Governments can specify limitations on \textit{some} of the commitments they make in a particular service sector, and hence wall off particular government laws or regulations from GATS. Governments list which sectors and which requirements they wish to exclude (though not all requirements can be excluded – the most favoured nation principle, for example, cannot be excluded in any sector). The presumption is that anything not on their list is subject to the full commitments. In actuality, however, this exemption procedure is less than meets the eye. The exemptions have to be signalled at the beginning, because it is almost impossible for governments to get them introduced later. Yet it is also almost impossible to predict what limitations should be put on commitments in advance.

As for the promised benefits to developing countries, an UNCTAD study concludes, ‘There is no empirical evidence to link any significant increase in FDI flows to developing countries with the conclusion of GATS’ (UNCTAD, 2002: 172). The World Bank reports similar findings. FDI location decisions are much less sensitive to the protections of GATS than they are to factors like physical infrastructure and nests of local support services.

\textbf{WHAT THESE NEW AGREEMENTS MEAN FOR DEVELOPMENT}

The new agreements must be seen in the context of the norms underlying the pre-Uruguay Round regime. At that time the ‘development’ norm carried some weight in trade negotiations, even if mainly when it could be deployed as a tool of Cold War and post-colonial objectives. The general push towards trade liberalization was conditioned by recognition that developing countries, and particularly least developed countries, needed ‘special and differentiated’ (S&D) treatment by definition of their being
developing countries. The answer to the question, ‘what do countries need to do (need to be permitted by international rules to do) to achieve equitable development?’ was not assumed to boil down to ‘liberalize’ and ‘integrate’. Many poor countries were allowed to maintain protection.

As noted earlier, the past decade has ushered in an era of new market access dynamics much more favourable to the developed countries. Now, in the ‘globalization plus’ paradigm pushed from the North, the route to development is seen to be the route of liberalization and unmediated integration into the world economy, supplemented by domestic institutional reforms to make deep integration viable. As Dani Rodrik observes, ‘Global integration has become, for all practical purposes, a substitute for a development strategy’ despite its ‘shaky empirical ground’ and the serious distortion it gives to policymakers’ priorities (Rodrik, 2001).

Taken together, the three agreements greatly restrict the right of a government to carry through policies that favour the growth and technological upgrading of domestic industries and firms. The sanction is market access: a country that implemented such policies can now be legally handicapped in its access to developed country markets, and the US and EU do not even have to provide serious evidence in the Dispute Settlement Mechanism that a developing country’s use of specific industrial policy instruments is ‘trade distorting’. To quote Dani Rodrik again:

The rules for admission into the world economy not only reflect little awareness of development priorities, they are often completely unrelated to sensible economic principles. For instance, WTO agreements on anti-dumping, subsidies and countervailing measures, agriculture, textiles, and trade-related intellectual property rights lack any economic rationale beyond the mercantilist interests of a narrow set of powerful groups in advanced industrial countries.

(Rodrik, 2001)

With a touch of hyperbole the agreements could be called a slow motion Great Train Robbery.

HOW DO WE KNOW THAT THE AGREEMENTS ARE – ON THE WHOLE – BAD FOR DEVELOPMENT?

These agreements are bad for development for at least two reasons. One is that they are vague at points where vagueness benefits the developed countries, and precise at points where precision works against developing countries. Vagueness allows the developed countries to raise the level of threat to developing countries – threats to bring a case before the DSM and threats to take other punitive actions justified on the claim that the developing country is breaking the (vaguely defined) rules of the WTO.

The second reason concerns the gulf between the agreements’
constraints on public policies in developing countries and the public policies adopted by the successful developers (Kozul-Wright, 1995; Chang, 2002). Almost all now-developed countries went through stages of protectionist policy before the capabilities of their firms reached the point where a policy of (more or less) free trade was declared to be in the national interest. Britain was protectionist when it was trying to catch up with Holland. Germany was protectionist when it was trying to catch up with Britain. The US was protectionist when trying to catch up with Britain and Germany. Japan was protectionist for most of the twentieth century right up to the 1970s, Korea and Taiwan to the 1990s. And none of them came close to matching our criteria for ‘democracy’ till the late stages of their catch ups.16

Today’s fast growers – including China, India and Vietnam – began their fast economic growth well before their fast trade growth and even longer before their trade liberalizations. They have constrained their trade liberalization by considerations of the capacities of domestic firms to compete against imports. But today the World Bank would be first to denounce the amount of protection in their current trade policies – if they were not growing so fast. If nothing else, their experience shows how little we understand the root causes of economic growth.

On the other hand, the development experience of Latin America and Africa over the whole of the twentieth century shows that regions that integrate into the world economy as commodity supply regions – in line with their ‘comparative advantage’ – and that rely on ‘natural’ import replacement in response to transport costs, growing skills, and shifting relative costs, are only too likely to remain stuck in the role of commodity supply regions, their level of prosperity a function of access to rich country markets and terms of trade for their commodities. When Latin American countries did go beyond ‘natural’ import replacement during the post-Second World War ‘import substituting industrialization’ decades their growth performance was in fact better by several measures than it has been during the subsequent era of liberalization and privatization.

As for the argument that the agreements benefit developing countries by raising the inflow of FDI, the share of developing countries in world FDI is small and falling (from the 1990s peak of 40 percent in 1994 to less than 20 percent in 2000), and the concentration of FDI on a very small number of developing countries remains as high as in 1980, meaning that there has been no ‘evolutionary’ spreading out to more and more countries (Wade, 2003). Moreover, there is no evidence that GATS has lifted the inflow, as noted earlier.

Bilateral investment treaties, which have been proliferating since the early 1990s (the US has now signed 42) take the TRIPS, TRIMS and GATS’ obligations of host governments as merely the starting point. They require
the host government to lift even more restrictions on foreign firms hoping to operate in their territory, to give even more concessions, in return for better access to the US or other powerful-party market. And they establish firm-state arbitration boards, which allow a private firm to take a government to arbitration by a body dominated by private-sector adjudicators naturally sympathetic to the needs of the firm, using private contract law rather than public law, which allows damages against the government to be levied retroactively. The WTO’s dispute settlement mechanism, where states deal with states under public law, looks evenly balanced by comparison.

WHY ARE DEVELOPED COUNTRY STATES PUSHING THIS AGENDA?

In the light of this evidence we should be sceptical of claims by representatives of developed countries that ‘ever-freer trade and investment benefits just about everybody’. The claims are better understood in the light of Friedrich List’s observations about how states with head-start advantages behave. Writing in the 1840s and generalizing from the behaviour of first Holland and then Britain in the face of manufacturing competition from elsewhere he observed:

> It is a very clever common device that when anyone has attained the summit of greatness, he kicks away the ladder by which he has climbed up, in order to deprive others of the means of climbing up after him. . . . Any nation which by means of protective duties and restrictions on navigation has raised her manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than to throw away these ladders of her greatness, to preach to other nations the benefits of free trade, and to declare in penitent tones that she has hitherto wandered in the paths of error, and has now for the first time succeeded in discovering the truth.

(List 1966 [1885]: 368)

Perhaps the starkest example of developed countries precluding developing countries from using an array of measures that they themselves used to protect themselves from unwanted competition is the Multi Fiber Agreement (MFA). Through the MFA, the developed countries put quotas on the import of textiles and apparel in order to protect their own employment-intensive, and therefore voter-sensitive, textile industries. Developing countries that tried to do something similar today would face serious trade sanctions under WTO rules. Moreover, even though the MFA has been abolished, Western textile and apparel markets remain heavily protected through both tariffs and quotas. And agricultural subsidies
remain infamously high. Each EU cow receives an average net subsidy of $2.50 per day, while European wheat farmers derive half of their income from subsidies, thanks to which they are able to cripple the export prospects of rivals like Argentina, which has defaulted on its debt because it cannot export enough to keep to its repayment schedule.

The apparatus of economic analysis has been deployed to affirm that largely free and open markets work best for all – which from a Listian perspective amounts to legitimizing kicking away the ladder. But there is a odd twist. Since the 1980s much work on the frontiers of economics investigates the heterodox world of increasing returns, linkages, technological learning, oligopolistic pricing, herding behaviour, irrational exuberance and the like, which at least in principle provide justifications for governments to implement industrial policy measures and restrictions on capital flows. On the other hand, the dominant ‘structural adjustment’ prescriptions of the World Bank and the IMF assume orthodox decreasing returns, stable equilibria, and no significant non-market linkage effects. Sometimes the same economists straddle both worlds, setting aside their knowledge of the heterodox world when they deal with development policy in order to hammer home the orthodox ‘fundamentals’.

The efforts of developed country states to cement the head-start advantages of their firms through the WTO agreements have been complemented by efforts to establish open capital accounts and free capital mobility as a principle of participation in the world economy. Notwithstanding all the evidence of the huge costs that free capital mobility can inflict on developing countries, especially after the East Asian financial crisis of 1997–98 (Wade, 1998a, 1998b, 2000, 2001), IMF Managing Director Michel Camdessus said in 1999, ‘I believe it is now time for momentum to be re-established... Full liberalization of capital movements [should be made] one of the purposes of the Fund’ (Camdessus, 1999). US Under Secretary of Treasury John Taylor declared in 2003 that the free transfer of capital in and out of a country without delay is a ‘fundamental right’ (Taylor, 2003).

**WHAT IS TO BE DONE?**

The new trade and investment rules and the old techniques of legitimation – ‘preach to other nations the benefits of free trade’ – join with other features of the world system to tip the playing field even more against most developing countries. One is China’s surging manufactured exports, which are hurting exporters in most other developing countries and sending a deflationary impulse through the world economy. Another is the skill-biased immigration policies of developed countries, which erode production and governance capabilities in many developing countries.
And in a class of its own is HIV/AIDS, which is destroying lives, communities, economies and governments across Africa, South Asia and parts of East Asia, with no end in sight (Putzel, 2003).

If the world is probably not moving in the right direction, as trends in world poverty and inequality suggest, then the precautionary principle – applied to the likely costs to the world of having a large proportion of the world’s population still at a small fraction of the living standards of North America and Western Europe half a century from now – suggests the need for non-market measures of intervention and for refocusing international cooperation around ‘development’ principles rather than ‘reciprocity’ and ‘no distortions’ principles (Wade, 2003b). Concretely, this would entail stronger one-way trade preferences for poor countries, and more legitimate scope for protection.\(^\text{18}\) This was List’s central prescription for a catch-up country like Germany. ‘In order to allow freedom of trade to operate naturally, the less advanced nation must first be raised by artificial measures to that stage of cultivation to which the English nation has been artificially elevated’ (List, 1966 [1885]: 131, emphasis added).

Of course, there is plenty of evidence of import substitution going awry in Latin America, Africa, South Asia and Australasia. But this no more discredits import replacement as a principle than the failure of democracy in many developing countries discredits the principle of democracy. The policy response should be to do import replacement better, not do it less (Bruton, 1998). It is clear from post-World War II experience that protection alone is not enough. Protection has to be made part of a larger industrial strategy to nurture the capabilities of domestic firms and raise the rate of domestic investment, in the context of a private enterprise, market-based economy. And as part of this larger strategy, government-led import replacement has to go with government-encouraged export development. The East Asian experience shows that trade policy restrictions on some imports need not stop the fast growth of other imports – and hence raise the demand for foreign exchange. Trade protection, in other words, need not be ‘anti trade’ (Wade, 1990; 1991; Jacobs, 1984). The problem in many developing countries – in Latin America and South Asia, for example, also in the formerly heavily protected economies of Australasia – has been the absence of this larger industrial strategy and implementing organizations, and the unwillingness of the ‘aid’ community, including the World Bank, to help them do industrial strategy sensibly.

The standard dismissal from economists is that even if protection and other forms of industrial policy could be justified in some circumstances, developing country states do not have the capacity to implement it effectively. This response rests on an unexamined assumption about low ‘state capacity’ in developing countries. But ironically, the world is proceeding on the assumption, in the TRIPS agreement, that developing country states do have a considerable capacity to enforce patents and copyrights. It is not
obvious that a state that can do this would not also be able to implement effective protection and other forms of industrial policy.\textsuperscript{19}

**REARTICULATING ‘ARTICULATION’**

Today we use the word ‘integration’ to refer exclusively to integration into the world economy, and we assume that more integration is always good for development. One of the strangest silences of development thinking is the silence about internal integration. We should distinguish between ‘external integration’ and ‘internal integration’ (or articulation), and recognize that the development of a national economy is more about internal integration than about external integration.

An internally integrated economy has a dense set of input–output linkages between sectors (a high level of sectoral articulation between, for example, rural and urban, and consumer goods and intermediate goods), and a structure of demand such that a high proportion of domestic production is sold to domestic wage earners (a high level of social articulation between wages, consumption, and production). Export demand is not the main source of economic growth. Robust political coalitions between capitalists and employees become possible in this type of economy, because capitalists, employees and the government recognize a common interest in wages as a source of sales and economic growth, not just as a cost of production. In unarticulated economies, by contrast, wages are viewed simply as a cost, not also a source of demand. Domestic production is not well connected to domestic consumption, leaving exports as the main stimulus to economic growth. Industrial and agricultural sectors producing for foreign markets remain enclaves. This socially and sectorally unintegrated structure limits the creation of class alliances, which handicaps democratic regimes.

The key question, then, is how can developing countries create more articulated economies? The starting point is to recognize that more external integration does not automatically generate more internal integration; on the contrary, it can erode internal integration. But it is also true that more internal integration, if fostered by high and unstrategic protection, can undermine external integration, at the cost of future internal integration at higher income levels.

Development strategy has to operate in the zone where the two forms of integration reinforce rather than undermine each other. But the fact is that the issues of internal integration – including practical nuts-and-bolts issues like nurturing supply links between domestic firms and the subsidiaries of multinational corporations, and designing arrangements to protect exports from protection – have largely dropped out of the development agenda as promulgated by Western development organizations. And the WTO agreements make it much more difficult than in the past for
development strategy to capture the synergies between internal and external integration.

To put the same point in more familiar terms, today’s development theory assumes that the principle of comparative advantage – specialization between countries in line with the location preferences of firms in free and competitive markets – should be the ur-principle of development policy. Conversely it assumes that the principle of import replacement – government encouragement of local production of some items currently imported – is not to be followed, because such policies have seemingly been discredited by the evidence of what happens when it guides the policy framework. In fact, the central challenge of national development strategy is to combine the principle of comparative advantage with the principle of import replacement in a way that generates pressure for upgrading and diversifying national production. This does not always imply protection. Strategic economics prescribes free trade, protection, subsidies, or some combination, depending on a country’s circumstances and level of industrialization. In some sectors and at some times, a country should give little weight to import replacement and a lot to comparative advantage; and vice versa.

There are a number of small and non-growing countries which, even if untrammeled by international rules, could not hope in the foreseeable future to do more than provide a low-wage platform for rich-country outsourcing, and whose domestic markets are too small to offer more than very limited possibilities for import replacement. There are others, particularly in Latin America, where the scope for import replacement is much bigger but where rapacious oligarchs have long used import replacement policy as yet another means of monopolizing opportunities and exploiting their populations. Here, more trade liberalization and more foreign direct investment can plausibly be seen as a way to force the oligarchs to cede their control over the economy – after which it may make sense to promote another round of concerted import replacement. Meanwhile, China is currently doing both at once, aggressively exporting in line with changing comparative advantage and aggressively replacing some current imports, following in the footsteps of Japan, Korea and Taiwan.

RE-TOOLING MULTILATERAL AND REGIONAL ECONOMIC ORGANIZATIONS

A more development-friendly environment requires changes in the mandate and procedures of the multilateral economic organizations. The question is how to reconceptualize and legitimate expanded ‘special and differential treatment’ for developing countries and dilute requirements for ‘reciprocity’, ‘national treatment’ and ‘international best practice’. The balance needs to be shifted away from the drive to homogenize trading
commitments to other states towards granting states reasonable scope to choose appropriate levels of national protection (including for health, safety, working conditions, and the environment).

More specifically, the rules of the international economic regime should allow developing countries to accelerate import replacement by measures such as tariffs and subsidies (preferably made conditional on improved performance of the assisted industries). The rules should allow developing countries to give less scope for intellectual property protection than the current TRIPS standards, and assistance in enforcing those lower standards. As a specific example of what should be changed, Article 27.1 of the TRIPS agreement says that a ‘patent shall be available and patent rights enjoyable without discrimination as to . . . whether products are imported or locally produced’. Developing countries should have the right to discriminate against patent rights when – after an appropriate period of years – the product is not locally produced. This is a key to import replacement, which is a key to industrial transformation.

Furthermore, international rules need to grant countries the right to use forms of capital controls in order to maintain the stability of their economies and protect trade flows (Bhagwati and Tarullo, 2003). The standard reply from economists is that global financial markets are now much too big and digitized to be subject to any form of cross-border controls. But the regime for tracing drug money and terrorist money across borders has proven to be quite effective; which suggests that unauthorized capital movements could be subject to the same sort of penalties as tax evasion.

Economists also qualify their recommendation by saying that the capital account should be liberalized pari passu with ‘sound’ or ‘prudent’ regulation. But in truth we do not have good measures for judging the soundness of financial regulation. The World Bank published in April 1997 a list of countries whose capital market regulation was strong enough to safely support an open capital account. South Korea, Malaysia, Thailand ‘with Indonesia and the Philippines not far behind’, Chile, Mexico, ‘with Brazil also ranking well’ (World Bank, 1997: 59). The East Asian financial crisis began three months later.

Suppose that the IMF had the authority of its Articles of Agreement to pressure countries to open their capital accounts on a timetable that it deemed appropriate. It would almost certainly underplay the dangers to the countries, both because of our lack of knowledge of how to gauge the ‘strength’ of a country’s system of financial regulation and because the IMF is highly attentive to the preferences of Wall Street and the City of London as mediated by the US Treasury and the UK Treasury.

Arrangements for debt-repayment standstills also have to be part of the arsenal. They would require an international organization (perhaps the IMF) being authorized to support them and the major industrial countries
recognizing the authority of the organization so that bondholders would be prevented from asserting claims in court.\textsuperscript{20}

The rules of the system should encourage countries to maintain a ‘positively correlated’ capital structure, such that the cost of borrowing is higher when ability to repay is higher and the cost is lower when ability to repay is lower. At present, developing countries tend to have ‘inversely correlated’ capital structures, where they borrow cheaply when times are good and borrow expensively when times are bad. This is a recipe for volatility, financial crisis, slower long-run growth, higher poverty and higher inequality (Pettis, 2001).

Finally, internationally agreed standards should be cast in terms which allow considerable leeway for national governments to interpret them. Committees of unaccountable experts, as in the WTO dispute settlement mechanism, should have limited powers to constrain the role of democratically accountable national bodies.

All these changes would give more room for different forms of national capitalisms to flourish, with the international framework designed to maximize international economic stability rather than at maximum free movement of goods and capital (Rodrik, 1998; Wade, 1996). If this sounds pie-in-the-sky, recall that the Bretton Woods system did meet these criteria and delivered magnificent economic performance through the 1950s to the 1970s.

As part of this policy-non-convergence scenario, we need to build up regional-level organizations, so that markets can be embedded not only nationally but also in regionally distinct configurations, with policy solutions tailored to the different vulnerabilities of different countries and regions. This is the point that the two Korean labour federations had in mind in their remarkable statement to US Treasury Secretary Rubin in July 1998.

The Asian development model, while containing some of the key elements which gave rise to the current crisis, also contains the very dynamic elements which made the ‘miraculous’ growth over such a short period. . . . The IMF policy regime, however, has overlooked . . . the positive and dynamic elements in its virtual blanket disavowal of the Asian economy. . . . It may be necessary, therefore, for Asian nations to build a body . . . which can serve as an Asian monetary fund.

(KCTU, 1998)

THE UNPROMISING POLITICS

It is easy to say that ‘the international economic regime must be changed, developing countries should be given . . .’. The politics are another matter. The developed country negotiators and the 500-strong WTO staff are
being driven by a mixture of ideological conviction and intense corporate lobbying. A former WTO negotiator commented that, ‘without the enormous pressure generated by the American financial services sector . . . there would have been no [GATS] services agreement’. The pressure came especially from the US Coalition of Service Industries, the European Services Forum, and the UK’s Liberalisation of Trade in Services (LOTIS) group’ (World Development Movement, 2002). The TRIPS agreement was propelled by a few industries – mainly pharmaceuticals, software and Hollywood – that stand to gain a lot from the protections, whose interests the US government championed. It is not obvious that agreements written to suit western pharmaceutical companies, software companies, the Motion Picture Association, and Wall Street/City of London are good for the world.\footnote{21}

On the other hand, developing country governments are not cooperating closely enough to push for the sorts of changes suggested here. For the most part their trade negotiators accept the legitimacy of the idea that ‘market access’ is the key to development – but they emphasize their access to the North’s markets, while the North’s ‘market access’ agenda emphasizes the North’s access to their markets, presented as being in \textit{their} own best interest. They negotiate for better market access (for their exports) as an end in itself, not for ‘development space’. And they do not see the critical importance of retaining the policy option of being able to constrain the inflow and outflow of capital by means of quantitative restrictions.

The vested interests are so strong, the legitimacy of the ‘globalization plus’ paradigm so well defended in the centres of power, that only economic crisis is likely to shift thinking. Yet how many more crashes like those of the 1990s and the early 2000s will the world endure before we conclude that the project of constructing a single integrated world market with universal standards – the culmination of the European Enlightenment ideal – is a mistake? Many, quite likely, provided that the populations of the G7 states are not seriously affected.

But small changes are possible even outside of crisis conditions, generated by some combination of, global social movements of NGOs, companies slowly expanding their social responsibility charters, ‘epistemic communities’ of scholars rethinking development strategies, and developing country governments pushing quietly ahead to encourage new activities (import replacement, new exports) in ways that by-pass or go under-the-radar of the international agreements.\footnote{22} From among these various entities it may be possible to organize coalitions for a determined push to revise specific and harmful clauses in existing agreements, such as Article 27.1 of TRIPS.

And now that the WTO has come to affect central aspects of people’s lives around the world, we should work right now to make it more open.
At present the negotiations to create new trade agreements are opaque, and disputes about existing rules are mostly resolved in secret. Governments of developing countries are often left out of the horse-trading sessions and presented with fait accompli. We should press the WTO to reduce the current vagueness of the capstone agreements, which rebounds to the advantage of the developed countries; to adopt clearer operating rules and procedures; to publish a record of voting and discussions; to require the chairs of negotiating committees to explain why they include some proposals and reject others from the text of the draft declaration, rather than, as at present, being able occultly to make a ‘magic text’.23

After all, several monetary authorities, including the Bank of England and the Federal Reserve, have started to publish full minutes soon after decision-making meetings, and the experience is generally considered to be successful; and judges in many countries are required to give reasons for their decisions. We need the WTO to be subject to much closer scrutiny by NGOs, in much the way that the World Bank is watched by the Bank Information Center (BIC), an NGO based in Washington DC, and by the BrettonWoods Project, based in London.24 And it would surely help if the WTO staff – which is an active policy maker, far from a mere facilitator of negotiations among representatives of member states – was more representative. Some 80 percent of the staff are nationals of developed countries, whose population comprises less than 20 percent of the population of the member states.25 As what the Bush administration calls the US’s ‘strategic competitor’, China, begins to inject its nationals into the WTO and other international organizations, and as China acquires the technological and even military capacity to be a competitor to the dominance of the west, it will be interesting to see how the international development agenda changes.

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NOTES

1 See also UNDP, Making Global Trade Work for People (London: Earthscan, 2002).
2 For an account of the dominance of the G7 (Group of Seven) states inside the WTO see Kwa (2002).
3 These commitments were made in the Uruguay Round of 1986–94, and remade in the Doha agreement of November 2001 to start a new round of multilateral trade talks.
4 The US has raised its agricultural and steel subsidies since the Doha agreement, and is more likely to raise trade barriers for textiles and garments, footwear, and several farm products than to lower them. These are sectors that are vulnerable to import competition from developing countries and important for the US political support system. The EU deploys protection about as much as the US, and has flouted its Doha commitments even more blatantly than the US by failing to commit to a timetable for reducing its subsidies.

5 Tariff escalation refers to higher tariffs on imports of more highly processed commodities.

6 The section on TRIPS is co-written with Kenneth Shadlen; see Shandlin (2002).

7 Compulsory licensing laws allow states to sidestep patents, to insist that a firm holding a patent on a technology or product of general importance license it to other firms.

8 For example, the TRIPS agreement gives a precise and narrow scope for states to limit patent rights for public purposes (for example, to limit patents on community knowledge), but gives wide and vaguely-defined scope for granting private patent rights (for example, over naturally occurring micro-organisms and micro-biological processes). So a state that refuses to allow patenting of micro-organisms is liable to a complaint, whereas a state whose firms take out patents on community knowledge in another country is not.

9 For example, the draft bilateral treaties (such as those with Singapore, Chile, Jordan, the Free Trade Area of the Americas [FTAA] negotiating text) further reduce exceptions to patentability, further limit the other government’s ability to sidestep patents with compulsory licenses, and in pharmaceuticals make the other government commit to the same provisions for easy extension of the patent beyond 20 years as in the US. The US in the FTAA negotiations is pressing for patents as the only method for protecting plant varieties.

10 The scope for sweet deals is enhanced by the ‘single undertaking’ nature of the WTO. Countries may decide that they have to accept a bad deal on some matters (e.g. TRIPS) in order to get what they want on other issues (e.g. agriculture). US appeals to the agriculture minister may elicit governmental pressure on the Geneva ambassador to give way on TRIPS.


12 Dickens was so angry about American infringement of copyright on ‘A Christmas Carol’ that he toured the US in 1842 urging adoption of international copyright protection in the long-term interests of American authors (Lohr, 2002). See also, Richard Kozul-Wright (1995); Ha-Joon Chang (2002).

13 TRIPS relates mainly to patentable or copyrightable activity.

14 Performance requirements cover not only obligations but also incentives for investors/producers to do certain things. For example, the government might offer a tax incentive in return for a certain proportion of ‘local content’, locally procured inputs. Or in return for ‘trade balancing’, exports worth a certain proportion of imports; or exporting a certain proportion of total production; or joint venturing with a local firm.

15 South Africa’s awarding of telecommunication contracts to Malaysian companies on the grounds that they had experience of handling problems of racial access to telephone networks, could be challenged on most favoured nation grounds.

16 Hong Kong and Singapore are the great exceptions on the trade front, in that they did have free trade and they did catch up – but they are city-states and not to be treated as countries. In any case, Singapore did place performance
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requirements/incentives on foreign subsidiaries and mounted an industrial policy to provide them with needed factor inputs.

17 But a recent paper by IMF staff economists, including Chief Economist Kenneth Rogoff, finds no evidence that opening the capital account is good for growth and good evidence that it raises the volatility of national consumption (Prasad et al., 2003).

18 The effectiveness of nonreciprocal trade preferences for poor countries is suggested by Rose (2002) who finds that, contrary to general assumption, being a member of the GATT/WTO as such made no statistical difference to how much trade a country did with others, but receiving trade preferences under GATT’s Generalised System of Preferences (GSP), preferences that rich countries gave to poor ones, roughly doubled a poor country’s trade compared to what it would have been otherwise.

19 My thanks to Ken Shadlen for this point.


22 Korea and Taiwan beefed up covert trade controls even as they announced bold trade liberalizations.

23 A South Asian delegate said about the process of formulating the Draft Declaration for Doha, ‘In the process of negotiations, we would object to a text, but it would still appear. We would state we wanted a text added in, and still it would not appear. It was like a magic text’. Quoted in Kwa (2002: 21).

24 A small WTO-watching NGO called the International Center for Trade and Sustainable Development (ICTSD) already exists, now in its sixth year. It publishes a regular bulletin of WTO news of particular interest to developing countries, Bridges. Others include WTO WATCH, Our World Is Not For Sale Network, Third World Network, the Trade Information Project which focus on getting information to NGOs and social movements to enable them to engage in advocacy with their governments and with the WTO. On WTO openness see ‘Open up the WTO’, editorial, The Washington Post, reprinted in International Herald Tribune, 23 December 2002. For a different view see Walter (2001). On international organizations more generally see Woods (2003). For UK-based NGOs’ opposition to a new investment agreement at the WTO see Oxfam (2003).


REFERENCES


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