



Beijing Consensus versus Washington Consensus?

John Williamson, who coined the phrase “Washington Consensus,” dispels the myths, clichés, and misunderstandings surrounding it and the Beijing Consensus that some say is now ascendant.

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Steve Weisman: Is there a new Beijing Consensus over how developing countries should develop? This is Steve Weisman at the Peterson Institute for International Economics with John Williamson, senior fellow here, who some time ago coined the term “the Washington Consensus” to describe as a model for developing countries, although as we’ve discussed here on Peterson Perspectives, that is sometimes mischaracterized or misunderstood.

John, thanks for coming to talk about both the Beijing and Washington Consensuses.

John Williamson: Yes. Let me make it clear that I don’t think that the Washington Consensus was advanced as a set of ideal propositions about the ways to develop. It was what I sensed in 1989 as a consensus around town about the type of policies that need to be followed in Latin American countries as of that particular date. That’s not to say that it’s comprehensive or neutral. There certainly are other things that I would want to include about the right ways to develop, and some of the things that have been attributed to Washington Consensus I regard as simply erroneous, but that’s another question.

Steve Weisman: What do you think of the idea of a Beijing Consensus? What would be its main principles?

John Williamson: The interesting thing is that most people who are simply talking about it seem to be non-Chinese. They are very much foreigners and intruding on the Chinese debate, and they’ve tried to suggest that there is this consensus, which many in developing countries are looking to now as the right way to develop. In a lecture [that] I delivered in Birmingham, I tend to take a somewhat cynical view about that. I argued first of all that there’s not a lot of content in the concept of the Beijing Consensus beyond saying, “This is what the Chinese do.” There’s no list of propositions [comparable] to those [that] I suggest constituted the Washington Consensus. Instead it’s what China does, and I’ve identified four things.

First of all, I said that China was certainly committed to feeling the stones across the river instead of doing things in one big leap. By that, they mean that they adopt an experimental approach to things and see what works and try things one at a time, rather than committing everything on one absolute theory. That seems to me a sensible enough approach if one’s in a position to do it.

Secondly, I think that it’s a very experimental approach [that] they are committed to. I think also one can argue [it is] a good thing although it can be taken too far. I do argue in this paper that there were times when one shouldn’t forget that they’re still a developing country and it really probably isn’t a good use of resources to be always reinventing the wheel rather than to accept that other people have already invented the wheel, and therefore, to devote resources to exploiting these innovations.

The third thing is that they still have many state firms and that they clearly are floating within a capitalist framework. Let's just say they regard prices as the essential mechanism by which they allocate resources, but they have many state firms and they haven't completely embraced the advice to privatize everything. Now, one is faced with asking the question: Should that be regarded as a great plus for China? It is regarded in many outside countries, I think, as a big plus for them. But it may be that the Chinese themselves feel that they, in fact, got more [from] liberalizing the economy since they got out of the fact that the process of liberalization is not yet complete. And maybe one needs a more balanced perspective than the tendency in the literature to espouse.

I think the fourth element of Chinese policy is continuing fascination with authoritarianism. I mean, one can't say that China is a great example of democracy. True that [Premier] Wen Jiabao has been giving speeches recently in which he espouses this principle. But China has not been noted for its attempt to espouse democracy in its relations with other countries. Instead it's accepted that countries are entitled to do as they please. It's really pushing the doctrine of national sovereignty very hard indeed, and one may have reservations about that. So, on the whole, I don't think that this Beijing Consensus, at best I've been able to formulate it, is the right way to go.

Steve Weisman: Many have long said that Asian economies are influenced by Confucianism. You were saying earlier that the Chinese are not the ones who coined the Beijing Consensus.

John Williamson: In fact, the term was invented by an American who was resident in China, Joshua Cooper Ramo, who used to work at Time Magazine at one stage.

He coined the term. I think it's been picked up fairly broadly but it's still conspicuous that it's not primarily Chinese who use it. It's primarily foreigners who've, in fact, argued in these terms. I don't doubt for a moment that there's an element of Confucianism [that] underlies it. I think in particular, the willingness to work hard, which is the characteristic of many Asian countries, stems directly from Confucianism much more than from anything [that] was invented in Beijing in the last 50 years. But I wouldn't give Confucius the predominant role in having spawned the Beijing Consensus, no.

Steve Weisman: Since the birth of sociology and Max Weber, there's been a debate about whether culture determines the success of a society as much as its government system. Do you think that's an oversimplification?

John Williamson: I'm sure that it's not the only thing [that] determines success but yes, I certainly think it's one relevant thing. I mean, originally, Weber talked about the importance of Protestantism. But one can perfectly well argue that Confucianism was the source of people not working hard, that this was why Asia was such a backward place. So the opinions on this have changed radically in the last 50 years or so. But I do think that work ethic is one of the components to become as a success, yes.

Steve Weisman: Coming back to the state-owned enterprises, which direction does China seem to be going in?

John Williamson: I think they're inching along the stones. They are privatizing but at a fairly leisurely pace, certainly not indulging in a belief that it's necessary to privatize everything in order to make any progress. That's not at all the nature of the Chinese case, no.

Steve Weisman: As you said, the term Washington Consensus was not meant to be a set of principles nailed to the wall but just what it was—a consensus. But certainly, since the financial crisis 2008, we do see that Chinese and some other Asians are saying they no longer want to be lectured by the West. Do you see some of that with China?

John Williamson: Yes, I think that's right. The fact that the free enterprise model was invented in the West is not a great selling point in Asia. But it happens to be a fact of life. It had to be invented somewhere, and it just happens to have been invented in the West as far as I'm concerned.

Steve Weisman: What about the Washington Consensus, as you originally described, what remains salient and what is no longer as relevant?

John Williamson: I think that the things [that] I identified all still remain salient. I think that the part under criticism in Asia is particularly the microeconomic part, the idea that one should liberalize the financial system, that one shouldn't have any controls on direct fund investment—the idea that one should go for deregulation, even in the limited sense as I used the term, which was deregulation of entry and exit of firms, rather than meaning that in the Dan Quayle sense of abolishing all regulations, which are intended to influence how firms operate, and have no controls over capital movements, no controls over financial companies of any sort. That wasn't what I meant. I think it's sort of much better in terms of what I did mean. But what I do feel is that I missed out on certain things [that] are very important.

Steve Weisman: Such as?

John Williamson: In particular, I've argued that there was not very much about the institutions that went into the Washington Consensus.

Steve Weisman: You mean international institutions or national?

John Williamson: In particular country institutions—the importance of having a bulwark against corruption, for example, the importance of having a government [that], in fact, delivers. Things like that weren't included in the Washington Consensus. They weren't particularly obstacles to Latin America in 1989 and therefore, they didn't get included. But if one is thinking about what is needed in order to get development off the ground, or continue developing, then I think one can't really neglect things like this. They came to the fore in the 1990s and I think they've been very forward since then.

Steve Weisman: What about this issue of control in entrance and exit of investments and even capital controls? What do you think of that now?

John Williamson: I think that it's unfortunate if this has the effect of blocking the entry of foreign direct investment or even equity investment, which is intended to put domestic private companies on an even keel with foreign-owned multinational companies.

Steve Weisman: I'm sorry. What's the difference between foreign direct investment and equity investment?

John Williamson: Equity investment, meaning when a domestically controlled firm, which has foreign investors investing through the stock market in it as opposed to making debt contracts with the developing country—either firms in the developing country or the government that's known as sovereign debt. But I can see much less advantage in that.

Steve Weisman: I'm sorry, less advantage in what?

John Williamson: In the debt type of contract. In countries indebtedting themselves as opposed to undertaking equity contracts or allowing direct foreign investors in. I don't think one has the same presumption that investment is going to increase. I don't think that therefore, there's the same presumption that growth is going to benefit, and that there's a much stronger presumption that the capital can flow out again in the event of a crisis developing. I mean, if one makes an equity investment, then there's a big penalty to pay. If you sell in a slump, that's when the equity prices fall and so one gets penalized for that. One doesn't get penalized in the same way for not really rolling over a debt contract.

Steve Weisman: So is there something to be said for some kind of controls on these kinds of indebtedness?

John Williamson: Indeed, I think there is, yes.

Steve Weisman: Did you always think that or is that something that's become clearer to you now as a result of the crisis?

John Williamson: No. That's something I've believed for a long time and in fact, first when I went to Chile in the early 1990s and the Chileans were at that time putting on their capital controls, and they seemed to me to take the right form. They were directed at the debt contracts and they're penalizing [them] more heavily than long-term contracts, and that seemed to me to make a lot of sense.

Steve Weisman: John, is it even valid to be talking about some kind of commanding consensus about development as each country needs to find its own way?

John Williamson: I think one needs to recognize that there will be differences between one country and another. But having said that: I don't think that one can say that there are no principles [that] generalize across countries. That it is impossible for one country to learn from the experience of another, I think that's going altogether too far.

Steve Weisman: John Williamson, thank you.

John Williamson: Pleasure.

