The Failure of the Washington Consensus, the Need for a New Reform and the Rise of the Beijing Consensus

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Abstrak


Kata Kunci: Washington Consensus, Beijing Consensus, Economy, Reformation, Globalisation, World Bank, IMF, US Treasury Department, and AIIB
Abstract

Global economic policy dominated by the influence of the Washington Consensus during the past few decades has led to many upheavals in the global economic order. The term Washington Consensus is associated with three major institutions located in Washington, the World Bank, the International Monetary Fund (IMF), and the US Treasury Department, and it has become a neoliberal economic agenda also called as the western economic agenda. The debates are increasing significantly regarding the effectiveness of policies that are sourced from the World Bank, IMF and the US Treasury Department in encouraging development. Where in reality, those countries that adopt the recommendations derived from the Washington Consensus, mostly bring them to experience economic problems. The last example is believed to be the 2008 global financial crisis.

In this journal, the author will explain and analyse the definition and the recommendations offered by the Washington Consensus in order to promote global development. It will also present various criticisms that have emerged from the various parties to the Washington Consensus. Various analysis will also be given to understand that the Washington Consensus is already less suitable and appropriate for use to encourage the global development today. Then this journal confirms the need for a new reform of the global economic order, namely with the policy recommendations for the new global economy through a new consensus. The rapid development of globalization has changed characteristic of many countries, especially developing countries, so that many developing countries begin to look for new formulas to boost their economies. Because the Washington Consensus is seen only benefit developed countries, while developing countries and least developed countries are experiencing a lot of problems of development. Thus, due to the demand and push for a reformation of the global economic order, China and the countries of the region have established the Asian Infrastructure Investment Bank (AIIB), based in Beijing, and it is now often called as the Beijing Consensus. Then, it now becomes a real sign of resistance to the Washington Consensus.

Keywords: Washington Consensus, Beijing Consensus, Economy, Reformation, Globalization, World Bank, IMF, US Treasury Department, and AIIB
Introduction

The term Washington Consensus was introduced by one of the prominent neoliberal economists, John Williamson, in 1989. John Williamson introduced the Washington Consensus at the time, in order to associate the consensus with the global financial institutions which have the home base in Washington such as the World Bank, International Monetary Fund and the US Treasury Department. This consensus initially came out as Williamson responded to the economic problems which mostly occurred in Latin America and African countries, whereas it became an issue of global economic agenda later on. Williamson provided 10 economic policies as the standard reform package to shift away from the crisis and achieve the development, especially in developing and less-developed countries.

Picture 1. Ten policy recommendations from John Williamson (Hubner, 2013)

Unfortunately, the Washington Consensus is strictly considered as a failed consensus by many major institutions and economists from group of Marxism, Dependency Theory and Structuralist after some economic crisis in Asia, Latin America, Africa, and lastly the global financial crisis in 2008. Joseph E. Stiglitz, in his paper the “Post Washington Consensus Consensus,” said that the Washington Consensus has proved neither necessary nor sufficient for successful development (Stiglitz, 2005). This consensus has given a bad development and crisis experiences for many developing countries. According to Stiglitz, the adoption of the Washington Consensus agenda in some Latin American and African countries has contributed to the economic crisis. In contrast, India and several East Asian countries like China, Taiwan and South Korea show a great development when they ignored the Washington Consensus and its representative institutions, for instance, China tries to use a new way what they call as Beijing Consensus. Furthermore, as a structuralist, Dani Rodrick wrote strong critiques in his paper “Goodbye Washington Consensus, Hello Washington Confusion” mentioning the Washington Consensus does not provide a significant solution towards the global economy, however it has provided problems and crisis in certain countries (Rodrick, 2006).

Many critiques and debates have been addressed towards the Washington Consensus since last two decades which question the effectiveness of this consensus and its original sense. Even Marxist/Dependency views from Alfredo Saad Filho and Costas Lapavitsas can support a claim that the consensus will drive the third world countries to be worse. However, the global financial crisis in 2008 was marked and believed as the end of the Washington Consensus. The
global financial crisis in 2008 becomes the ultimate evidence to prove the failure of the Consensus. The former British Prime Minister, Gordon Brown, explicitly said that the old Washington Consensus is over and we have reached a new consensus today (Brown, 2009).

Actually, the Washington Consensus has shown a long global constellation where the World Bank, IMF and the US Treasury Department are getting serious pressures to do a new reform. On the other hand, the failure of the Washington Consensus has provided a lot of interesting lessons for the international institutions and leaders to evaluate and provide better policies and strategies in the global economic architecture. Therefore, this paper will specifically assess the lessons that appear to have been learned from the critiques of the Washington Consensus, as well as to evaluate the main tasks that need to be undertaken at the national and international level if globalization drives to an inclusive world economy, and also to analyse whether the Beijing Consensus can be the alternative one or not.

**The Contexts of Washington Consensus**

The discussion regarding the Washington Consensus is contentious for two decades already. Basically, the Washington Consensus is associated strongly towards the market-based approach. It has a strong orientation to the market fundamentalism and the development strategies will be based on the market fundamentalism as well. The very major strategies from the Washington Consensus are to emphasize the privatization of the national assets to the public and to focus on the liberalization, and macroeconomic stability. Furthermore, this consensus also forces the role of the government to be minimized and downscaled to the lowest level.

The Washington Consensus proposed by John Williamson has a very strong concern towards the efficiency. According to the Williamson, the market and economic activity efficiency will be the main key to achieve the economic development in developing countries or the third world countries (Williamson, 1990). However, this idea has a less concern towards the equity. This is very contradictory with Joseph E. Stiglitz which said that the efficiency cannot be separated from the equity (Stiglitz, 2005). On the other hand, Williamson suggested the governments to reduce the public spending for direct subsidies, especially for agriculture. A huge public spending for direct subsidies is considered by Williamson as the obstacle of development. The subsidies should be allocated for other economic supporting activities in order to achieve the efficiency.

Furthermore, the neoliberal economists supporting the Washington Consensus believe that free market is the ultimate solution to gain economic development and boost the GDP. They considered the GDP growth as the best indicator to see the economic growth. Therefore, this agenda suggested the governments to focus on the free market as a form of the market liberalization. As the consequence, the World Bank and the International Monetary Fund gave a pressure to many countries to do liberalization and concern seriously on the free market. They suggested their member to reduce the tariff and trade barriers as soon as possible in order to get the maximum economic activities.
On the other hand, the Washington Consensus suggested a fiscal policy discipline by avoiding large fiscal deficits to GDP, and adopts a tax reform by expanding the tax base and adopting the moderate marginal tax rates. The interest rates should be determined based on the market which is the same like exchange rate where must be competitive. The next points of this consensus are the liberalization of inward Foreign Direct Investment, the deregulation of market entry procedure, and the legal security for property rights. Ultimately, the Washington Consensus agendas have driven many countries to restructure their financial condition by taking loans from IMF and the World Bank. Therefore, those countries getting loans from the IMF or World Bank have to follow the instruction and pressure from these global institutions, and these countries have to obey the IMF and the World Bank in every single of their national policies. As the consequence, there is no domestic policy sovereignty from developing or less-developed countries which lie on the Washington institutions commands. This dilemma is seriously taking effects in Latin America, Africa, and some Asian Countries, although some countries in East and Southeast Asia refuse to adopt this system anymore.

The Critiques for Washington Consensus and its Failure

The Washington Consensus has brought a serious debate and critiques. The structuralist thinkers such Dani Rodrick and Joseph E. Stiglitz have explicitly mentioned strong critiques towards the Washington Consensus. They oppose the consensus offered by John Williamson and say the Washington Consensus has become a source of crisis and problem for developing and less-developed countries. Both Rodrick and Stiglitz have challenged the term which described as the fundamental policies of the World Bank, the International Monetary Fund and the US Treasury Department where Stiglitz calls it as a “one size fits all” treatment of individual economies. Stiglitz said that the treatment suggested by the International Monetary Fund and the World Bank is too simple: one dose, fast stabilize, liberalize and privatize, without prioritizing or watching for side effects (Stiglitz, 2002).

The reform package addressed by Williamson did not work out as it was intended. Based on the statistical data, the Latin American countries which mostly adopted the Washington Consensus policies have a lower economic growth than East and Southeast Asian countries opposing the Washington Consensus policies. The economic growth of Latin America reached 5.5% during 1960–1980, where East Asia achieved only 5.5% during the same period. However, during 1990–2004, the economy in Latin America only achieved 2.7%, where East Asia can reach 7.8% on that period (World Bank Statistics). Tremendous economic growth is shown by East and Southeast Asian countries when they applied contrary policies to Washington Consensus by having strong government role and nationalize many companies such as in China, Taiwan and South Korea, as well as India.

According to Stiglitz, the Washington Consensus has made a slower GDP growth as well in Latin America where they are mostly the follower of the IMF and the World Bank. On the other hand, Latin America also experienced tremendous volatility of growth and there was no stability during the 1890s period of Washington Consensus. The worst thing according to Stiglitz was that
the rise of unemployment in Latin America during 1990–2004 and the declined of per capita income. Furthermore, under the Washington Consensus inequitable sharing becomes a serious concern because the Washington Consensus policies produced limited growth only and even when the growth did occur, it was not equitably shared. The equality issues are not even considered seriously from the consensus policies which later caused social and political problems in some countries in Africa, Asia and Latin America.

Dani Rodrick mentioned that the government role cannot totally be separated from economic activities (Rodrick, 2006). In developing countries, the roles of government are not only to address market failure such as controlling conflicts of interest and ensuring the soundness and safety of the financial system, but also to promote equity and provide safety nets. For structuralist, Washington consensus is considered as a failure consensus because it did not understand the limitation of the markets and it focused on very limited a set of instruments. As the consequences, the Washington Consensus ignored the industrial policies, land reform, strengthening the financial sector, improving education, Competition policy, and government issues in both public and private sectors (Stiglitz, 2005).

According to Marxist/dependency theorists, the Washington Consensus is not suitable for developing or third world countries. However, it can bring an economic disease for development and prosperity in those countries. The Marxist thinkers such as Alfredo Saad Filho and Costas Lapavitsas have seriously advocated for equality and adjust the development distribution and better social class in the society. The Marxist economists argued that the Washington Consensus categorizes the third world nations into a backdrop of the reform which makes the third world nations have a dependency on the mercy of the developed countries or western countries (Lapavitsas, 2001). They believe that the consensus proposed by Williamson is the source for greater global crisis and economic problem (Saad-Filho, 2010).

Marxist/dependency thinkers believe that the Washington Consensus is a tool to further the establishment of the capitalism. For the Marxist, this capitalism system may lead to even greater social and economic problems for the workers in developing and less-developed countries because of their low bargaining power and weak position as subject from the western imperialists. The policies in the consensus will push the developing countries and less-developed countries to adopt the capitalism system which brings them under the control of the developed countries and global financial institutions. The reform package offered from the Washington Consensus is considered by the Marxist as a worse instrument that will be used by developed and huge economic countries to expand the imperialist influence and power to the third world countries and makes them dependent for political, social and economic on western countries and international financial institutions.

Many scholars then believe that the Washington Consensus policies have failed to handle the economic structure efficiently in developing countries. The case in East Asia can be a good example where Taiwan and South Korea can show a wonderful success for their economic growth with a larger role from the domestic government by growing domestic savings and undertaking the industrial policies inside the region. It is the same like what happens in China, India, Indonesia and some other Countries in the region where the governments
play a big role in the market and economic activity, as well as applies the trade system with their own characteristic and model.

The biggest critique towards the Washington Consensus came when global financial crisis starting in 2008. The developing and less-developed countries confidently oppose and reject the Washington Consensus policies and against the international financial institutions such International Monetary Fund and the World Bank for their insignificant contribution and solutions. On the other hand, the prior to the global financial crisis in 2008, the economic crisis which happened in Argentina in 1999–2002 is believed as the result of the Washing Consensus failure. During the 1990s, Argentina became a loyal follower of the Washington Consensus policies suggested by the IMF and the World Bank. However, its economy finally was collapse. Many economists and scholars believe that the cause of this crisis is due to the application of fixed exchange rate which became increasingly uncompetitive, failure to get an effective control over the fiscal accounts, and the collapse of the macroeconomic in the country.

The Need of New Reforms

The failure of the Washington Consensus has provided many lessons that can be learned by new government leaders in developing and less-developed countries to concern on their policies and international financial institutions to do a reform and create a new economic package or policies to boost global growth and development. The neo-liberalist people have to believe that the Washington Consensus has failed to give a solution for global development. However, it has given a bad experience for countries adopting the policy package from this consensus.

During the 1990s and 2000s, the international financial institutions such as the international Monetary Fund and the World Bank have suggested the Washington Consensus package for the developing and less-developed countries. In fact, this idea did not bring a successful achievement for global development. The countries that adopted the Washington associated policies experienced a bad economic growth and collapse, whereas the countries that opposed the Washington package can show a great economic growth. For instance, there is a big contrast between Latin American countries adopting the Washington package and East Asian countries which did not adopt the Washington package in some important respect. East Asian countries are slow to liberalize the capital market than the Latin America and some African countries. Furthermore, they are also slow to liberalize the trade and they adopted strong government industrial policies such as making many successful state-owned enterprises.

The differences in terms of policy account for the performance differences between Latin American/African countries and East/Southeast Asian countries. The East/Southeast Asian countries show more growth and faster growth, the benefits of growth more widely shared, and more stable although the 1997/98 Asian crisis happened, they can recover it quickly like Indonesia.

The Washington Consensus has come to the end. The question now what is the alternative one to replace and give a positive global development. Therefore, we will need a new consensus or a new reform. According to
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structuralist thinker such as Stiglitz, the economic package should not ignore the relationship between the economic success and the social and political stability or structure. The objective of the policies should not only concern to increase the GDP, but have to achieve a sustainable and equitable democratic development. The most important point now is to chase new reforms to finish soon and create good global governance. The reforms will work by reforming the global financial system to make it more stable and to reduce the risks facing the developing countries such as reforming the global reserve system and developing better mechanism for shifting risk (Stiglitz, 2005).

Globalization and Inclusive World Economy

The failure of the Washington Consensus has provided many experiences regarding the international development, and today in the post Washington consensus we are dealing with the globalization as a global instrument to accelerate global prosperity growth. Globalization at its simplest can be seen as the increase over time of international trade (referred to as merchandise trade) and services (Otter, 2014). Furthermore, globalization can be defined as a process of international integration through the interchange of world views, products, ideas and other aspects of culture (Al-Rodhan, Stoudmann and Nayef, 2006). Globalization is almost the same with the Washington Consensus which highlights the trade and market liberalization. Dorron Otter in his book, The Business Environment, mentioned that according to Neoclassical/neoliberal such as Adam Smith, trade will be very important to expand the market which allows bigger specialization and increases productivity at the domestic level. Therefore, the globalization based on neoliberal/neoclassical view will give good benefits: firstly, it provides a source of external funding that boosts the amount of money available to fuel trade internally, and secondly it enables further room for the expansion of markets on an international scale (Otter, 2014). The comparative advantage theory can be applied and work here totally.

The Marxist/socialist has difference views regarding the globalization than the neoliberal/classical views. According to Marxist/socialist, globalization will not be a solution for international development because it will create a bigger dependency of the third world countries on the developed nations or western imperialist. The globalization will drive the developing and less-developed countries to greater problems such as disparity, inequality, poverty, and unbalanced development among the countries. On the other hand, the structuralist thinkers argue that the globalization could be a good instrument to achieve global development and prosperity if there are some structural and institutional reforms and reparation. Structuralist thinkers believe that the third world countries cannot reach the level of developed nation or industrialist nations directly or soon after the world war II, but they need to catch up this level by taking the globalization to move up step by step.

Therefore, the domestic and international levels need to undertake certain strategies and policies to achieve positive development and prosperity if the globalization is to work in such a way as to build an inclusive world economy. Stiglitz argued that the domestic level should pay a serious concern to focus on the importance of equity and employment. In addition, the domestic level has to make a balanced role of government and market by promoting and regulating
markets, providing institutional and physical infrastructure, and promoting education, innovation and technology. The domestic government has to play good and enough roles toward the macroeconomic sector. The financial sector should get bigger concern from the government in order to create a more stable and positive financial market, and the government has to make good and strong social and political policies as the key aspect to achieve a good and stable capital investment.

On the other side, the international level has to make some reforms in order to reach a better global development. Stiglitz said that in order to enhance sustainable, equitable, stable, and democratic development, the international level should pay a serious concern towards several aspects regarding the reformation of the global economic architecture. The global economic architecture should produce new strategies and policies by focusing on efficiency, stability, equity among countries, and ability of developing countries to pursue their objectives. The international institutions have to allow developing and less-developed countries to have bigger authority to adjust their fundamental economy, social and politic towards the globalization characteristics and system. The global economic strategies and policies have to be in appropriate with the local characteristics and models in order to allow the third world nations to achieve faster economic acceleration by having more suitable platform and economic package.

**Beijing Consensus**

The rise of China as the new economic super power has contributed to the change of the international economic architecture. China role in terms of economy has challenged the position of the United States as the most dominant player at the international level (Albertoni & Arguello, 2015). Its increasing development has decreased the influenced of the United States, especially among the developing countries (Turin, 2010). Therefore, many people are now discussing a new economic term called “Beijing Consensus.” The Beijing Consensus was firstly introduced by Joshua Cooper Ramo in 2004 through his paper published by the United Kingdom’s Foreign Policy. Ramo sees that the economic policies produced in Beijing have become concern for many countries and influence the international economic architecture. The Chinese economic model/ Beijing Consensus offers a different model and characteristic than the guidelines offered by the Washington Consensus.

![Image](image.png)

*Picture 2. Three guidelines from the Beijing Consensus (Hubner, 2013)*
The major aspects of differences between the Beijing Consensus and the Washington Consensus are the role of GDP, financial sovereignty, and government intervention. When the Washington Consensus puts more concern on how to maximise the liberalisation of market and gives full freedom for market, the Beijing Consensus still puts the role and intervention of the government in the market as an important aspect to drive the development. Firstly, in the Washington Consensus, the GDP is the main focus or centralisation to determine the growth of a country. However, for the Beijing Consensus, economic sustainability and the wealth distribution will also become as the important aspects. Secondly, in terms of financial sovereignty, the Washington Consensus will believe that the financial sovereignty automatically will be produced by the general development, whereas the Beijing Consensus sees that the financial sovereignty will be obtained through the policies of self-determination, because this more deliberate action to financial sovereignty will give a more secure future for economy of a country (Hubner, 2013). Lastly, the government in the developing countries are mostly having problem with corruption in the government and politics in which put those developing countries likely unstable in some cases and it can bring to risk than potential growth. Unfortunately, the Washington consensus will use general guidelines for all type of countries, whereas the Beijing Consensus will allow the developing countries to adjust the economic system in line with their local characteristics. Then, it becomes the reason for Samantha Hubner to suggest those developing countries to consider the classical liberalism and it will likely be safer to be used in developing countries because it will consider the laws of human nature (Hubner, 2013).

In challenging the existence of the Washington Consensus represented by the World Bank, IMF, and the US Treasury Department, the Beijing Consensus has got the Asian Infrastructure Investment Bank (AIIB) as its representation (Akira, 2015). The AIIB is an investment bank to fund the infrastructure projects and it now has member about 50 states from developed and developing countries, especially the Southeast Asian countries. The Chinese government became the main initiator for this Bank and it was finally launched in 2015. However, the US government has opposed the establishment of the AIIB and it pushes some major countries for not joining this financial institution. That is why there is an interesting competition between the US government promoting the Washington Consensus and the Chinese government promoting the Beijing Consensus.

The global financial crisis in 2008/9 has marked the failure of the Washington Consensus as the standard and guideline for the development, because many countries adopting the Washington Consensus guidelines, both developed and developing countries, got problem with their economy during that period. However, China has showed a significant growth during the period 2008/9 with its economic growth more than 6% although the world in the global financial crisis. Several developing countries adopting the economic system similar to China were also in a good economic growth, for example the Southeast Asian countries like Indonesia and Thailand where they applied their economic policies almost similar to the points in the Beijing Consensus. The influence of Chinese government has been very strong in Africa’s today as the major investor and fund lender (Rommann, 2013). The Chinese economic model or Beijing Consensus will aware with the characteristic differences of developing
countries and will give more space for the government of the country to play more roles in order to ensure the development. It is different with the Washington Consensus where all type of countries should use the same standards. On the other hand, the Chinese government is still having a problem as well when people try to ask about the exploitation of Chinese labour in china by companies.

Conclusion

Recently, the international regime and society have to believe that the Washington Consensus has failed to achieve global development and prosperity. The realization of the Washington Consensus has driven many developing countries and less-developed countries into economic problems and contributes to weaken the global economic growth. The crisis happening in Argentina in 2002, Asia in 1997/98, Latin America in the end of 1990s and early 2000s, Russia, Turkey, Sub-Saharan Africa, and ultimately the global financial crisis in 2008 are the evidences of the failure of the Washington Consensus and marked as the end of the Washington consensus. The developing and less-developed countries will not believe on the Washington Consensus anymore and they have lost their trust on the international financial institution such as the International Monetary Fund and the World Bank, as well as the World Trade Organization. For instance, in October 2014, China and 22 Asian countries signed the MoU to form the Asian Infrastructure Investment Bank as a rival of the World Bank and IMF, and now the member of this institution reaches 57 countries. The international society is now seeing the emergence of the Beijing Consensus as a belief from some countries as the alternative model for development. The role of the Beijing Consensus is getting bigger in challenging the position of the Washington Consensus, especially in the developing and less-developed countries. The result from the global financial crisis in the past has strengthened the new belief of the importance of the local development models which are more suitable than the pragmatic approaches. It means that each region should adopt its own economic model with its original character which is suitable with its fundamental economic, social and political resources.

The international financial institutions such as the IMF, World Bank, as well as the WTO and the international economic architecture need a serious reform soon. The globalization is catching the entire world already and taking the effects worldwide. However, the globalization has not provided the best solution for the third world countries to achieve a proper prosperity for their citizens because it has caused some critical problems in certain countries, especially in less-developed countries where the capitalism contributes to their citizen poverty, disparity and inequality. Therefore, the globalization has to allow the domestic governments to play a good and enough roles in the economic and financial markets in order to create a more stable condition. The governments should get a space to ensure a suitable role towards the economic growth, not getting the pressure from the major global financial institutions. The social, political and cultural aspects must be crucial considerations in determining the economic strategies and policies.
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