

Three Sets of Recommendations for Developing Economies

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Abstract: The article examines the sets of recommendations for the developing economies that are named consensuses. Three consensuses are considered: Washington, Beijing and Mumbai consensuses. Seoul consensus is briefly characterized as well. The context of foreign policy is reviewed in view of these consensuses realization. The relation between Washington consensus and Rostow modernization model is shown. Main components of these consensuses and their theoretical prerequisites are considered. Weaknesses and strengths of these recommendations are discussed. Special attention is paid to critical remarks on Washington consensus. The author has drawn a conclusion that Russia shall creatively use the given recommendations and experience of their application.

Key words: Globalization • Modernization • Developing economies • Washington consensus • Seoul consensus • Mumbai consensus • Beijing consensus

INTRODUCTION

By 2011, there have been several sets of recommendations for economy development named “consensuses”. The consensuses, in fact, propose different models of economy development. Washington consensus was the most influential in the 1990-ies although it was pointedly criticized by different parties. After the financial crisis in 2008-2009 it was widely pronounced as unpromising. As an alternative, the Beijing and Mumbai consensuses based on the experience of economic development of China and India respectively were proposed. In G20 London Summit the UK Prime-Minister Gordon Brown stated that the “old Washington consensus” had come to an end. The G20 Seoul Summit in November 2010 elaborated a new “Seoul consensus of development”. In April 2011, Dominique Strauss-Kahn came out with a statement that Washington consensus with its simplified economic ideas and formulae, collapsed during the world economic crisis and was left behind [1]. In this article we are reviewing the Washington, Beijing and Mumbai consensuses.

The Main Part: Before we start discussing the recommendations it is necessary to briefly describe the condition of the developing economies in a modern

globalizing world. This condition substantially differs from the condition of the states in classical Westphal system. In the globalizing world, the sovereign state faces a number of challenges. These challenges, of course, cannot be considered as a result of some mystic insidious forces. They result from the effects of objective economic and political factors arising during globalization. The habitual principles of international relations turn out to be questionable and are subjected to deep re-thinking and reformatting. The review of main differences between the post-Westphal system and the Westphal one is provided in the table below (Table 1). However, it is clear that the most significant are not the new principles of international policy, but who and how will apply them.

After this brief review of modern situation proceed with Washington consensus. The term “Washington consensus” was first proposed in 1989 by John Williamson, the researcher of the Institute of International Economics. He developed the concept of Washington consensus based on the recommendations of International Currency Fund, World Bank and USA Treasury for Latin America for overcoming the crisis of the 1980-ies. All these organizations (as well as the Institute where Williamson worked) are located in Washington that conditioned the name of the consensus. Later, the term “Washington consensus”

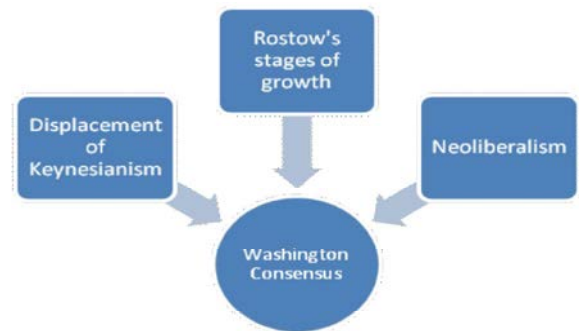
Table 1: The review of main differences between the post-Westphal system and the Westphal one.

Westphal system 1648	Post-Westphal world	Key events during globalization
Sovereignty of national states	Global law and international jurisdiction. Main humanitarian values determine standards and borders that cannot be violated by statesmen and states.	Establishment of International Court in Hague by UNO (1993)
Non-intervention in internal affairs of countries	The right for "humanitarian interference" in case of human right violation or a threat to international peace and security	Resolution 688 SC UNO (1991). The Security Council authorized the multinational forces for a military intervention to Iraqi to protect Kurds
The right of the national state to manage its natural resources	The concept of "common heritage of mankind". International community shall prevent state or individual's assumption of the right to use some resources and provide their usage for everyone's benefit with due attention to environmental protection.	In 1970 the General Assembly proclaimed the bottom of the World Ocean and its resources the "common heritage of mankind" and approved the Declaration of Principles separating the bottom of seas and oceans and their mineral wealth out of the national jurisdiction (Resolution 2749, XXV).
The state is a legitimate subject of the international law regardless of the political regime	The legitimate state shall accept the fundamental democratic values	The International Convention of UNO on civil and political rights (came into effect in 1976)

was used in a wider sense, namely to designate the neoliberal approach to economic development (although Williamson rejected such extended application of the term). Washington consensus theoretically continues the concept of Walt Whitman Rostow. The Rostow model is associated with liberal economic school emphasizing free trade and ideas of Adam Smith. Rostow rejected the concept of Friedrich List stating that the countries whose economy depends on raw materials export may limit to exports and incapacitate their economies to develop other industries. According to Rostow income from raw material export can and shall be directed to production and give impulse to its development. In this respect Rostow shares the opinion of John Maynard Keynes on admissibility of state control over economic development (that is unacceptable for radical advocates of free trade). In his theory Rostow is based on the following theoretical preconditions formed during decolonization epoch of 1950-1960-ies [2]:

- Western countries are the most developed and other countries (mostly former colonies) are at the early stages of development, though in future they may reach the level of the Western world.
- Every country has to go through all stages of development sequentially.
- The countries of the third world need leadership and support from more developed countries.

The below scheme presents theoretical prerequisites of Beijing consensus formation.



The list formulated by Williamson included the following recommendations [3].

- Discipline in taxation sphere.
- Canceling state subsidies (especially "irregular") for enterprises. State budget should be allocated to investments in infrastructure, support to low-income people, basic health care and basic education.
- Tax reform-expanding tax base and adoption of moderate marginal tax rates.
- Credit interest rate should be determined by the market and at that, real rate should be positive (but moderate).
- Free rate of national currency.
- Liberalization of foreign trade-liberalization of import, first of all, by canceling quantitative limits such as licensing. Any trade limits may be introduced only by means of import duties that should be uniform and comparatively low.
- Liberalization of direct foreign investments.

- Privatization of state corporations.
- De-regulation-canceling rules impeding market development or limiting competition apart from those that are justified by security, environmental protection and consumer interests. Reasonable control over financial institutions.
- Legal protection of ownership.

Criticism of Washington consensus in different countries and in different circles was focused on different aspects. In the countries, whose economy is mostly oriented at agriculture, most often reduction of subsidies was criticized. In the countries with significant natural resources criticism was mostly related to privatization of mining and processing industry.

Critics of antiglobalism consider Washington consensus as a method for opening the labor market of the developing countries for exploitation by the companies from the developed countries. The prescribed reduction of tariffs and other tax barriers create opportunities for free movement of goods across the borders, whereas work force migration is limited by visa regime and necessity to obtain working papers. This results in a situation when goods are manufactured by cheap work force in undeveloped economies and then exported for sale in the developed countries. This turns out to be profitable for trans-national corporations.

Neo-Keynesian critics state that the policy proposed by Washington consensus is too inflexible for being successful. This policy does not consider economic and cultural differences between the countries. In addition, the proposed recommendations may be efficient during fast economic growth rather than in the time of crisis.

According to Nobel Prize winner Joseph Stiglitz the ICF's recipe is very simple: one dose and fast-stabilize, liberalize and privatize, without prioritizing or watching for side effects [4].

As opposed to old Washington consensus the Seoul consensus of 2010 assigns a great role to state regulation of economy. It does not offer any unified or ready solutions but proceeds from that the solutions should agree with individual requirements of concrete countries. Seoul consensus distinguishes "Nine key pillars", i.e. the most important areas that should be treated as priorities. 1) Infrastructure; 2) private investments and job creation; 3) human resources development; 4) trade; 5) accessibility of financial resources for the population; 6) "resilient or elastic"

growth, i.e. capable of reconstruction after crisis; 7) food safety 8) mobilization of internal resources; 9) exchange of knowledge [5].

The term "Beijing consensus" was introduced into political lexicon in 2004, when the Center for Foreign Policy of UK published the article by Ramo Joshua Cooper the "Beijing consensus". Ramo is a former editor and foreign editor of "Time" magazine and a staff member of Kissinger Associates, the analytical center of the former Secretary of State Henry Kissinger.

Ramo having analyzed factors of economic development of China formulated three main recommendations for economic development [6].

- Commitment to innovations and on-going experiments. One of the main accusations addressed to Washington consensus is "inflexibility. Ramo insists that there is no universal recipe and that the only way to success is a flexible and dynamics approach.
- The second recommendation implies that per capita income is not the only indicator of progress. Along with per capita income the stability of economic system and even wealth distribution should be considered.
- The third recommendation suggests the policy of self-determination, when the less developed countries control leverage for protection from superpowers and to maintain their financial sovereignty. Along with financial self-determination it is recommended to develop an efficient military strategy mostly of asymmetrical character that does not imply direct confrontation. Unlike the Washington consensus mostly ignoring geopolitical issues, the Beijing consensus infers that geopolitics and geo-economics are closely related.

Critics of the theory of Beijing consensus (such as Larry Summers) and Professor of Oregon University Arif Dirlik point out that the economic growth in China is based on merciless exploitation of Chinese work force by foreign companies. According to them, the Chinese economy is focused on foreign markets, whereas Chinese people appear to be on average poorer than even the citizens of Albania or Jamaica.

The term "Mumbai consensus" was introduced by Larry Summers, the key Advisor of B. Obama Administration in discussions of economic relationships between the USA and India. Mumbai consensus was

formulated on the basis of generalization and conceptualization of the experience of economic growth in India [7]. Mumbai consensus is considered by its followers as an alternative to both Washington and Beijing consensuses [8]. As opposed to Chinese economy oriented to export, the economy of India is substantially oriented to internal consumers. At that, the political system of India, different from China, is democratic. According to Summers, the Indian model of economic growth may serve as an example for other developing countries and as a result the majority of mankind will follow the Mumbai consensus. Mumbai consensus is based on the significance of middle class, stipulating that economic prosperity should not be a lot only for an elite few. The economic growth should be oriented to people. From Summers's point of view Mumbai consensus by no means contradicts the USA interests. Making a speech in the Business Council of USA and India Larry Summers said "The world that the United States wants to see, the world that India wants to see, is a world of increasing integration, is a world of increasing prosperity, is a world of tolerance, is a world at peace, is a world where prosperity comes from the bottom up, is a world where respect for individuals is the paramount value" [9]. According to Summers, Mumbai consensus will be especially topical in 2040-ies, when it will be discussed more than the Washington and the Beijing ones.

Experts of the Research Center "Gateway House" (Mumbai) in 2010 formulated Mumbai consensus as six principles [10].

- Pluralistic democracy.
- Strategy of gradual achievement of the result and decentralization (in political practice).
- Development and strengthening of broad masses of population (as socio-economic purpose).
- Dominating production of goods and services oriented to internal market (in economic sphere).
- Private entrepreneurship and innovations (in business).
- Non-expansionism international policy oriented to cooperation (in geopolitics).

Washington consensus is focused on extension of democracy and free trade, Beijing consensus-on the experience of economy oriented to export and Mumbai consensus pretends to form the economy oriented to people. Undoubtedly, modernization in Russia should be realized in accordance with specific economic, political

and social conditions in the country. From the existing models it is necessary to select the ones that are applicable in our situation. To realize flexible and effective modernization policy we should involve the widest possible spectrum of ideas and approaches.

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