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Is there a Beijing Consensus on International Macroeconomic Policy?

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Summary. — Some commentators have claimed that there is a growing Beijing Consensus among emerging and developing economies concerning the merits of China's economic policies. Within an analytical framework provided by the well known international policy trilemma, this paper investigates the empirical evidence concerning this claim with specific reference to the adoption of international macroeconomic policies. We find that there are substantial differences between what China does and what is done in other emerging and developing economies. While we discover some regional and inter-temporal variations, there seems to be little or no support for the existence of a Beijing Consensus.

Key words — trilemma, China

1. INTRODUCTION

In his 2004 paper, Joshua Cooper Ramo suggested that there was a "Beijing Consensus" throughout the developing world. He argued that the consensus was forming around certain basic guidelines for encouraging economic development modeled on experience in China (Ramo, 2004). However, although the term has been fairly widely used, it has remained ill-defined. Certainly it lacks the greater precision that was used by John Williamson when he introduced the concept of the Washington Consensus. Indeed, Williamson has commented that the Beijing Consensus is in essence simply a perception by those outside China of "what China does" (Williamson, 2010).

With such imprecision it is difficult to reach any rigorous and meaningful evaluation of whether there is or is not a consensus among developing economies about an appropriate development strategy based on the path adopted by China. To test the validity of the implementation of a Beijing Consensus in these terms would require a detailed and specific definition of China's economic policies as well as its political regime, the identification of metrics by which these characteristics can be objectively measured, the collection of data across the developing world relating to these metrics, and the selection of a methodology that captures the proximity of other countries' policies to those adopted in China. We do not undertake such a mammoth exercise in this paper. Instead our ambitions are more limited and modest.

Our focus is on the combination of international macroeconomic policies adopted by emerging and developing countries. Our analytical framework is provided by the well known trilemma or impossible triad, that argues that countries cannot simultaneously have pegged exchange rates, monetary independence, and free capital mobility. [1] The trilemma forces countries to adopt a combination of these characteristics that is consistent with the constraints it imposes. They will emerge with an outcome which lies somewhere within what is, in effect, a three-dimensional policy space. Thus, one outcome may encompass, for example, only a small degree of exchange rate flexibility, a substantial degree of monetary independence and the use of some capital controls, while another may involve much greater exchange rate flexibility and the free mobility of capital. The detailed possibilities are, in principle, infinite.

The methodology we use in the paper allows us to identify the location of economies within the three-dimensional policy space just described. We first summarize the observed outcome in China. Having established China's outcome, we then estimate the proximity of other emerging and developing economies to this. Do developing countries tend to cluster around what China does or do they deviate from it? Beyond this, do any patterns emerge, with some specific types of developing countries (in terms of regional location or level of development) showing a greater proximity to China than others, and has the degree of proximity changed over time? Our objective in the paper is therefore to test an element of the Beijing Consensus in terms of the realized combinations of international macroeconomic policies adopted by developing and emerging economies.

The paper is organized in the following way. Section 2 provides a further broad but brief discussion of the Beijing Consensus and summarizes the particular interpretation of it that we use for the purposes of our analysis. Section 3 presents, again briefly, our analytical approach, informed by the impossible triad. Section 4 explains our empirical methodology and

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reports our findings. Robustness checks are reported in Section 5, and a relevant discussion on the role of international reserves and financial liberalization is in Section 6. Finally Section 7, provides a succinct summary and makes a few concluding remarks about the possible evolution of trilemma outcomes for China, in the light of experience in more advanced economies.

2. FROM WASHINGTON TO BEIJING

In the early 1990s, John Williamson claimed that there was a Washington Consensus concerning the design of economic policy. His particular focus was on Latin America and the policies that were being advocated there by the Washington-based international financial institutions; the IMF and the World Bank. Although the phrase has come to be used in different ways by different people, and often in a way that is at odds with Williamson's initial presentation of it, the Washington Consensus is seen as encompassing macroeconomic policies relating to fiscal deficits, monetary expansion and exchange rate policy, microeconomic policy relating to competition policy and the regulation of markets, and policies relating to trade and capital market openness. Key elements involve monetary discipline, tax reform to widen the tax base and increase tax revenue, tight control of public expenditure, with a redirection of it toward areas such as health and education, financial liberalization designed to encourage domestic saving and to raise the marginal efficiency of investment, the elimination of overvalued exchange rates in order to strengthen the current account of the balance of payments and discourage capital flight, trade liberalization designed with the objective of raising domestic economic efficiency and exploiting comparative advantage, encouragement of foreign direct investment as a means of facilitating technology transfer, privatization and deregulation as ways of overcoming the inefficiencies of state monopolies and increasing competition, and the establishment of systems of property rights in order to facilitate the better operation of markets.

In the period since its inception, many claims and counterclaims have been made about the extent to which the Washington Consensus has survived, with assessments often depending on the particular definition favored. A key emerging claim is that in the developing world the Washington Consensus has been replaced by a so-called Beijing Consensus. However, if there were ambiguities in the interpretation of the Washington Consensus, there have been even greater degrees of imprecision about the components of the Beijing Consensus. At the broadest and most inclusive level the Beijing Consensus has been used to describe a situation in which emerging and developing economies have sought to imitate the economic policies pursued in China. At this level, the Beijing Consensus covers the complete array of economic policy and is therefore very comprehensive. More narrowly, the Beijing Consensus is taken to describe the adoption of a development strategy that is built around a gradual move to market liberalization. In this context, it relates more to a "process" than to a particular combination of policies, and a belief that the gradualist approach to economic reform adopted in China is superior to the "big bang" or "shock therapy" approach that has been followed in some other countries in transition.

The "content" and "process" of the Beijing Consensus can, however, be combined. For example, part of the content may be to move toward a flexible exchange rate, but the process may be to do this only very gradually by incrementally or occasionally incorporating a greater degree of flexibility. Similarly, part of the content may be to move toward capital account liberalization but with a process that sets out to achieve this in a rather slow and piecemeal fashion. The same observations could be made about the adoption of free markets in general, and even about the democratization of the political system. At any one time, the content of policy may not reflect the final objective that has been set by those in authority since the process may be incomplete. However, with a sufficiently slow acting process of reform, it may appear that the existing status quo is fairly firmly entrenched.

Whatever the claims made by policy makers in China about their intentions, there may be sufficiently little policy action in this direction to allow the dynamics of policy change to be detected. This allows the particular configuration of policy at any one point in time to be presented as "what China does". The idea behind the Beijing Consensus is that a similar policy configuration is to be found across emerging and developing countries.

The existing policy mix in China is certainly inconsistent with key facets of the Washington Consensus. While there might be legitimate debate about whether the design of China's domestic monetary policy and fiscal policy is consistent with the Washington Consensus, there would be considerably less disagreement about China's exchange rate policy and the openness of China's capital account. Even though the Washington Consensus does not directly opt for the superiority of flexible exchange rates, it does advocate avoiding currency misalignment, implying that some degree of exchange rate adjustment may be needed to correct currency overvaluation or undervaluation. Similarly, while not eschewing the use of capital controls in some circumstances, the Washington Consensus favors a move toward capital account liberalization. There is significant evidence to support the claim that China has strongly intervened in the foreign exchange market to maintain a low value for the renmimbi (RMB), with the motivation for this being to stimulate export led economic growth. Correspondingly, China has made extensive use of capital controls, with these allowing the Chinese authorities to exercise control over the value of the RMB.

If there is a Beijing Consensus, it would be expected that other emerging economies and developing countries would be found to have adopted similar policies. The empirical section of this paper explores the extent to which they have. Before moving on to this, however, we first characterize the aspects of what China does. Specifically, in the next section, we briefly characterize China's extant policies in the context of the impossible trinity that underlies international macroeconomic policy.

3. AN ANALYTICAL FRAMEWORK

The impossible triad or trilemma claims that countries cannot simultaneously have fixed exchange rates, monetary independence, and free capital mobility. If a country's authorities opt to peg the value of the currency, then either domestic monetary policy needs to be designed to ensure that the domestic rate of interest is close to the global rate in order to remove the incentive for capital to move internationally, or capital controls will be needed to directly prevent or moderate the inflow and outflow of international capital. If a high priority is placed on monetary independence but also on capital mobility, then the message of the trilemma is that a pegged exchange rate will be unsustainable. The trilemma thereby imposes constraints on the design of international macroeconomic policy, and delineates an area of three-dimensional policy space incor-