Ph.D. Thesis

Judit Szilágyi

Washington or Beijing Consensus?

Shifts in global economic power between the United States and China

Abstract

Supervisor:

Zsolt Rostoványi, DSc.
Professor

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Institute for International Studies

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1. The choice of topic

The dissertation deals with the different economic models of the United States and China, with special regard to the changes since the beginnings of the global economic crisis. The crisis creates a logical starting point for our research as it has highlighted the main conflicts between the two countries as well as between the two economic models represented by them and opened a global debate about the possible future models of capitalism.

The dissertation is built on the assumption that the hegemonic position of the United States cannot be maintained and the major challenger of this position has already arrived at the global scene. The two powers are however totally interdependent, China’s growth perspectives are significantly affected by the dynamics of the US market, while China is also the largest foreign holder of American debt, which is vital for the economic recovery and stimulation of the US, just to mention two aspects. As the Chinese phrase points out at the beginning of the dissertation („Tong chuan, yi meng” – „Same bed, different dreams”), the two economies are a kind of a Siamese twins, reliant on each other’s development, while divided by a number of counter interests. It is also interesting to see how thoroughly and consciously Washington has been preparing for the „China-threat” for a relatively long time while Beijing keeps reassuring the world about its peaceful intentions and openness for multilateral solutions.

The dissertation is built on the following structure: after drafting the two different economic models, we try to analyse the interests of both the US and China through some practical elements of the theoretic background.

1.1. Methodology

The specific characteristics of the topic and the aims of the research make own data generation not relevant so the dissertation is based on the analysis of a relatively wide range of scientific articles and macroeconomic data. My previous research in the topic and articles during my work as a research fellow at the Institute of World Economics of the Hungarian Academy of Sciences also builds up a useful basis for the dissertation.

The US has an excessively wide range of literature dealing with China for a relatively long time. Official documents include above all the annual and special reports of the US-China Economic and Security Review Commission working for the Congress. The Congressional
Research Service also frequently publishes detailed analyses focusing on US trade policy, foreign debt, or its relations to the Asian powers, among others.

A wide range of American think tanks also deal with the topic, including for example the Peterson Institute for Economics, publishing a number of well-founded analyses and preparing material for hearings of the Congress. Brookings Institution and several university research centers also frequently publish articles of the topic. Data is mainly taken from US, World Bank or IMF statistics, partly because of questions on the credibility of Chinese statistics. Chinese and Asian scientific articles also constitute a large part of the literature, a fortunately wide variety of English language analyses are available, as the topic also draws great interest in Asia.

Hungarian literature is mainly based on several volumes of the results of a complex four-year-long research project on China by the Institute for World Economics, as well as a research on the reasons, outcomes and global changes of the economic crisis by the same institution. Other sources include books and articles from authors like András Inotai, Ottó Juhász, Barna Tálas, or Gyula Jordán amongst others, but I tried to incorporate the most relevant sources dealing with the topic. Besides, I had the opportunity for a few really useful consultations with András Inotai.

The dissertation uses a deductive methodology, starting from the hypotheses based on the sources, and after collecting further data and analysing different aspects, we decide on the acceptance or rejection of the hypotheses.

**Major questions of the dissertation:**

- What are the major differences between the Washington and the Beijing „consensus” and which aspects of the neoliberal economic model, globalization or the current system of multilateral institutions are used by China to achieve its declared goal: a „peaceful rise”?

- Can we accept the „Beijing consensus” defined by Ramo? What further aspects could be added to draw a more accurate and complex definition?

- What are the major characteristics of the Chinese development model and can they adapted for other countries, regions, so can we talk about a real „consensus” in the original sense? (This question is not the major research area of the dissertation and will only be shortly addressed at the analysis of the Chinese „model”.)
What set of development policy tools is applied by China as the major challenger of the US hegemonic power and what are Washington's answers to these measures?

How can some specific conflict areas between the two countries be incorporated in the framework of the theoretical differences between the two models?

What are the effects of the US-China rivalry and counter-interests on the shifts in global economic and political power?

2. Key findings of the dissertation

1. The Washington Consensus has ended with the global economic crisis. However, the Beijing Consensus will not take its place, neither in the original sense of „consensus” meaning an economic model, nor in the broader aspect of the definition, referring to the major center of power in the global economy.

The first hypothesis merges the two most typically used types of definitions of „consensus” further elaborated in the chapter funding the theoretical background and the conceptualization of the dissertation. The first part of the thesis is without any doubt true, the WC has ended but China cannot be a role model either. The Chinese road cannot be easily copied, not only because of the different global economic and political environment nowadays, but because of a number of specific elements, from the extremely high level of state ownership and intervention, the closure of the financial and capital markets, to the authoritarian political system and centrally planned economic system, which are in general completely extraneous to the developed world. The crisis, however, has striked a final blow to the Washington Consensus and its already deteriorated reputation, questioning the credibility of previous recipes inspired by neoliberal economic policies. In addition, it has hit exactly the hardest the previous flagships and engines of globalization being at the same time the main beneficiaries of the Washington Consensus, while China remained much less affected and even clearly improved its relative position. As a result, critical voices of the WC have intensified requiring new alternatives and finding a common point in giving a larger room for state intervention as a key to the solution. Nevertheless, because of the particular elements mentioned above and further analysed in the dissertation, the Chinese model cannot serve as an example for the developed world, nor can for the developing nations, as elaborated under hypothesis no. 2.
As for the second part of the thesis, conclusion is by far not so clear. The broader sense of the Washington Consensus refers to the primacy of the United States both in terms of global economic dominance, as well as in terms of having the greatest influence on most important international institutions. The term „Beijing Consensus” was developed exactly because of this important double meaning.

China has already surpassed the US GDP on purchasing power parity last year (2014) and according to the forecasts, can be the largest economy in absolute terms within a decade. However, forecasts are generally based on constant trends, not taking into account a wide scale of factors that will definitely slow down the astonishing pace of economic development. Just to mention a few problems China faces in the coming years: the ageing society and the widening social gap both call for the creation of a basic social welfare system, which together with the growing real wages, will definitely weaken China’s global competitiveness. Second, environmental pollution has also reached a critical level and introducing new technologies and investing in the long term sustainability will also absorb valuable resources on the short run. Thirdly, China has already announced its plan to gradually shift from export-oriented growth to a domestic market-driven one, this shift however cannot be applied easily due to the traditionally low savings rate and the applied model of state capitalism in general. Consequently, export is expected to remain the major engine of Chinese growth at least on the medium term, which is largely based on the dynamics of the American market.

The United States can also make use of the dollar as the key international currency, and this role will not be threatened by China for a relatively long period, as also proven in the dissertation. Besides, the already mentioned indebtedness of the US makes interdependencies even more complex, so we can conclude that at least for a few more years, the G2 cannot develop independently from each other.

2. China's success is generating global debates and quests for alternative economic models, neoliberal flagships are also affected by the notion of the „visible hand”, fuelled by the development of China. However, China cannot be a role model for neither developed, nor developing nations as a result of a wide range of internal and external conditions. What the Chinese model teaches to the rest of the world, is that economic policy can be applied selectively, progressively and pragmatically and „à la carte liberalization and deregulation” can be a way to success.
As the dissertation shows in detail, it's better to talk about a „Chinese model“ instead of a „Beijing Consensus“, because the original meaning and context of this word would mean a recipe for others (mainly developing countries), a role that China is reluctant to take on.

As the first hypothesis mentions the major factors why China cannot be a model for the developed world, now we focus on the developing nations (even though this is not the major objective of the research). First, external factors of the world economy have significantly changed since the beginnings of the first Chinese reforms in 1979. At that time, chances were much higher for a successful export-oriented strategy based on the core model of the Asian developing state, being able to remain relatively closed for a long time and having contact with the world economy only on a small and controlled surface. Special economic zones, selective industrial policy, selective FDI attraction, manipulated exchange rates among other aspects were the major tools of this developing state, creating a successful global player within a few decades.

On the other hand, an important factor in the success of China is its magnitude. Although domestic market based economic growth is still to be achieved, in terms of development potential as well as being an important power center, China has always played a significant global role. And even though the authoritarian type of governance is by far closer to the realities of the majority of the developing nations than to the developed ones, they still cannot have similar external and internal conditions to base their development on. The over-emphasized „sovereignty“ principle of China, meaning the ability to withstand any external political or economic pressure and taking only the right steps at the right moment, is not a realistic starting position for everyone.

China has shown however that there exists another way, we may call „authoritarian capitalism“ or „capitalism with Chinese characteristics“, thus enhancing new quests for alternative models. The significance of the Chinese road can be measured just exactly in this regard: it moves the world from a normative universalism of economic models and pushes us in the direction of fragmentation and finding local capitalism models.

3. Political changes expected by Washington and the West in general are unlikely to happen in the foreseeable future in China. „Capitalism with Chinese characteristics“ is not only coexistent with the authoritarian political system, but the latter is a key and stabilising element of the model.
A key element of the Chinese model is that the legitimacy of the system is based on a continuous and dynamic economic growth having raised hundreds of millions of people from poverty since the beginnings of the changes. This success is the result of the state-controlled system, based on one-party rule, the direct intervention to the market through state-owned enterprises and state-run banks, the centrally planned economic system with its five-year plans, or the artificially low exchange rate manipulated by Beijing. As a result of the economic developments, social support for the government is higher than ever. Thus, Chinese modernization is not weakening, rather strengthening the party's rule and the authoritarian system.

4. Exchange rate policy definitely largely affects bilateral trade relations but is not the exclusive element behind the success of China's export-oriented development strategy, as the United States tries to suggest.

In the second part of the dissertation we deal with the questions of exchange rate policy, monetary policy and the possible internationalization of the renminbi. Although the Washington Consensus gives no explicit recipe in the question of fixed or floating exchange rates, the more flexibly an exchange rate can float, definitely the closer it follows the idea of the WC. I have chosen these policies for a number of reasons: exchange rate policy is a clear area where the Chinese model can be seen in function, while it also constitutes a highly conflictous issue between the two countries.

The research shows that although Chinese exchange rate manipulation is clearly an important factor behind bilateral imbalances with the United States, but definitely not the only element. Beijing’s decision to let the yuan slowly appreciate in the last years has not resulted in the disappearance of the huge trade and current account deficit with the US, so other factors of competitiveness must stand behind this phenomenon, too.

5. Although the yuan is clearly internationalizing, its role is restricted to commercial functions (unit of account and medium of exchange) and is not a reserve currency yet. As a result, reforms of the international financial system based on the changing role of the dollar and the yuan can only be expected on the long run.
Besides practical and economic reasons also elaborated in the dissertation, a currency's global use has also symbolic relevance reflecting the strength of the particular economy. The analysis of this particular area is important for our research as China is internationalizing its currency according to a road map which clearly reflects the key concepts of its economic model: gradual, pragmatic steps, using its special economic zones and Hong Kong as „incubators” or experimental fields, as usual. The openings of offshore renminbi hubs as well as the cautious liberalization moves on the capital market already pave the way for becoming an investment currency besides the commercial functions and mark the road to a larger international role for the yuan.

Besides these factors, there is a remarkable spontaneous growth in the use of renminbi in international trade both as an invoicing as well as a settlement currency due to the growing role and bargaining power of China in the global economy. China is currently the largest exporter and the second largest importer in the world. The use of its currency is becoming more and more anavoidable for its major trading partners, who seem also willing to accept this internationalized role of the yuan. The use of the renminbi is especially remarkable and constantly growing with trading partners from the GCC group and in general the Middle East and Africa, with the ASEAN countries as well as with Russia. For different reasons and with different motivations but the members of this group can also become Beijing's natural allies in weakening the dollar's role by turning towards the renminbi. Within one year, the yuan has jumped from number 13 currency used in international trade to number 7 and has good chances to reach the top 4 within another year.

This does not mean however that it could replace the dollar. The USD is deeply embedded in the international financial system as a key currency through its dominant role on all areas and money functions, as well as through the US leverage in international financial institutions like the IMF or the World Bank. So the reform of these institutions and the truly internationalized yuan can remain still only a long term goal for Beijing.
3. Conclusions

The dissertation builds on the double definition of „consensus” meaning both the type of the economic model (neoliberal or state capitalism to put it simply) and the major power shaping today's global economy. As far as the first part of the question is concerned, the dissertation prefers to use the term „Chinese model” instead of „Beijing Consensus” as China clearly tries to avoid a role similar to that of the US in setting a universal „recipe” for modernization and economic reforms. Nevertheless, we do not want to lose the double meaning of the term therefore we have connected the two types of definitions by the hypotheses.

However, the original concept of the Beijing Consensus created by Joshua C. Ramo needs further elaboration and correction, too.

Ramo describes „innovation” as one of the key elements of what he calls the „Beijing consensus”. In the original sense of the word we cannot talk about innovation as China is still building its growth largely on „creative imitation” or „second generation innovation” and „real” innovation, own research and development resulting in brand new and worldwide recognized technologies and know-hows are only a result of the last two five-year plans which made high tech industries, inclufing electronics and IT for example the key areas for development. Innovation in the field of construction is also remarkable as a result of massive, state-run infrastructural projects. But without doubt, China is still not the leading R&D center of the world.

If we take „innovation” in a very broad sense however, meaning China' adaptibility to the changes, innovative use of some elements of liberalization with the right timing, then we arrive to a closer soultion. In my opinion, a key element of the success of China has been its ability to gradually, pragmatically and selectively use different sets of economic policy tools that I call „evolutionary approach” in the construction of the model. This „à la carte liberalization and deregulation” is visible in the specific areas discussed in details as well as in the whole model.

The second aspect, „sustainable and equal development” creates also huge question marks. Ramo mainly deals with environmental sustainability (which is by far not resolved in China) and handles the question of social sustainability with a conclusion that the Beijing Consensus, unlike the Washington one, is much more sensitive and reactive to social equality and
solidarity needs, and if there are still any misconceptions or fallacies of the model, then innovation helps to find the right way.

China also prefers this communication in its rhetorics. The truth is however, that social inequalities have never reached such a high level in the modern history of China as nowadays. Nevertheless, social stability is really a key issue of the model created in the research as it is the strongest primary basis for the legitimacy of the system. The government and the party is therefore interested in keeping up the high growth rates as this is the best assurance that no social unrest may threaten their power. This brings us to the conclusions described at hypotheses no. 1. and no. 3., namely the necessity to create at least some sort of social welfare system in order to decrease social tensions, which will result in the further slow-down of China's economic growth; and the conclusion that capitalism (at least in this version) can coexist with the authoritarian political system, creating a stronger base than ever for the legitimacy of the one-party rule.

As a result, the „Beijing Consensus” seems rather a version within the frameworks of the „Washington Consensus”, selectively applying its basic elements while trying to minimize its negative social and political effects than a totally different, radically diverging alternative.

The original concept seems to completely forget about the most important element of the model: the extremely large role of the state, which is visible in the state-owned enterprises (we deal with them in a separate chapter because of their key role in the modernization) or the particular policies, out of which we analyse the monetary and exchange rate policy in depth. Approximately half of the dissertation is focused around the analyses of these areas because they give a great overview of the Chinese model in function while also creating huge conflicts between the two countries in the research. Furthermore, the economic crisis has resulted in a slight shift in the paradigm, creating the term „guo jin min tui” - „the state advances as the private sector retreats”, meaning a slow-down in the development of the private sector and the influence of the state regaining importance.

The last element of the original definition, „sovereignty and self-determination” is also discussed in the second hypothesis. China definitely builds upon its growing reputation (besides its economic weight) when challenging the position of the US, and its visibly strengthening soft power is partly due to the fact that it is able to show an alternative for the rest of the world. This creates a quest for new types of capitalism from the developed world (including the acceptance of the notion of the „visible hand”) and feasible alternative ways of
modernization from the developing nations, resulting in local capitalism versions instead of a uniform globalized version.
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2. Referenced articles (in English):


3. Other:

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