

Report No. 12

**BEYOND THE WASHINGTON CONSENSUS:
LESSONS FROM CHINA'S DEVELOPMENT EXPERIENCE**

Centre for Policy Dialogue

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The Centre for Policy Dialogue (CPD), established in 1993, is an innovative initiative to promote an ongoing process of dialogue between the principal partners in the decision making and implementing process. The dialogues are designed to address important policy issues and to seek constructive solutions to these problems. The Centre has already organised a series of such major dialogues at local, regional and national levels. These dialogues have brought together ministers, opposition front benchers, MPs, business leaders, NGOs, donors, professionals and other functional groups in civil society within a non-confrontational environment to promote focused discussions. The expectation of the CPD is to create a national policy consciousness where members of civil society will be made aware of critical policy issues affecting their lives and will come together in support of particular policy agendas which they feel are conducive to the well being of the country. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues.

*In support of the dialogue process the Centre is engaged in research programmes which are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of CPD include **The Independent Review of Bangladesh's Development (IRBD), Governance and Development, Population and Sustainable Development, Trade Policy Analysis and Multilateral Trading System and Leadership Programme for the Youth.** The CPD also carries out periodic public perception surveys on policy issues and developmental concerns.*

*As part of CPD's publication activities, a CPD Dialogue Report series is brought out to widely disseminate the summary of the discussions organised by the Centre. The present report contains the highlights of the dialogue held at the CPD Conference Room on June 2, 1999 on the theme of **Beyond the Washington Consensus: Lessons from China's Development Experience.***

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Dialogue on
**Beyond the Washington Consensus: Lessons from
China's Development Experience**

i) The Dialogue

An in-house dialogue on *Beyond the Washington Consensus: Lessons from China's Development Experience* was held at the Centre for Policy Dialogue (CPD). Dr. Ramgopal Agarwala, a former Chief Economist of World Bank in China, delivered the keynote presentation. Professor Rehman Sobhan, Chairman, CPD moderated the dialogue.

ii) Keynote Presentation

The keynote presentation centred around five themes:

First theme: *Chinese performance for the last 20 years has been impressive*

Agarwala pointed out that China has been able to maintain a growth rate around 10 percent for over 20 years and this has impacted on 1.2 billion people. Some provinces of China have attained growth rates of even 18 percent to 20 percent. This growth has been realised without any significant inflow of capital. He argued that China's development has moved forward based on a self-reliant development strategy without incurring deficits on its current account, maintaining price stability with single digit inflation. Where any degree of inflation has occurred it was due to administrative price adjustments. China has also registered remarkable progress in poverty reduction where only 5 - 6 percent of households live below the poverty line. Such impressive socio-economic results reflect a significant improvement as well as continuity with the tradition of the Chinese Revolution.

Agarwala pointed out that the high economic growth in China took place without any unmanageable urbanisation in contrast to the South Korean and other East/SE Asian experience where urbanisation has contributed to severe social problems. China has wisely developed its middle towns which has reduced pressure on metropolitan towns to absorb rural migrants.

China has been very successful in curbing inflation. China brought down inflation from 18 percent to 4 – 5 percent while maintaining its growth rate at around 8 – 10 percent whilst South Korea adopted a tight monetary policy to moderate inflation at the cost of reducing its growth rates.

China has also been able to bypass the recent East Asian crisis by putting major emphasis on infrastructure development.

Second theme: *China's reforms are largely endogenous and differ from the reform process originating in the Washington Consensus.*

Agarwala observed that the basic feature of Chinese development is that their process of development has remained largely endogenous where they make their own decisions and determine their own pace of reform. In 1978 when economic reforms were initiated under the regime of Deng Zhao Peng, the World Bank came up with a typical reform package for China: stabilisation, privatisation, shock therapy of prices, liberalisation etc. This was the same shock therapy applied by the Bank and IMF to the former USSR states and Eastern Europe over a decade later. But China chose to ignore the World Bank's policy advice; rather they designed their own reform agenda. Six years on from 1978 China's economy was mainly based on agriculture. During those years there was no liberalisation of the trade regime.

In focusing on agriculture, China chose to emphasise the development of the entire rural economy through the medium of *Township & Village Enterprises* (TVEs). Agarwala argued that these TVEs were essentially transformed versions of the old *Communes* and provided the dynamic for China's industrialisation during the 80s and early 90s.

China also made effective use of its *Export Promotion Zones* (EPZ) in order to rapidly expand and diversify its export capacity. The conventional wisdom states that EPZs create further distortions in the economy, therefore, opening up in general, is better than establishing EPZs. But the Chinese did not follow the conventional wisdom and, in fact, chose, instead, to partially liberalise their economy. The EPZs served as pockets of liberalisation designed to promote exports whilst the domestic market remained fully protected from the destabilising influence of import liberalisation as was then being recommended by the World Bank.

In case of privatisation, China rejected the standard advice of the World Bank. The Chinese did not even use the term *privatisation*. Agarwala argued that Eastern Europe paid the price in slow growth, factory closures, rising unemployment and a rise in poverty by following the standard prescription of the World Bank for its reform. China, on the other hand, emphasised private sector development before moving on to privatisation of the state sector. After 20 years of helping the private sector, now many non-state

institutions are coming forward to take over many responsibilities in the Chinese economy.

In giving an outward orientation to its economy China efficiently used the investments by the *overseas* Chinese. Today *overseas* Chinese contribute most of the Foreign Direct Investments (FDIs) in China. China, over the last decade has been the largest recipient of FDI amongst the developing countries (DC), substantially exceeding inflows to any other East/South East Asian economy.

He argued that the Chinese are ready to listen to what others are saying but they do not like to be dominated by any outsiders. He cited his personal experience as the Head of the World Bank's resident mission to China of negotiation with the Chinese government on issues of aid and policy reform. For example, in case of pension system reform, the Chinese took some points of reference from the World Bank but they designed the reform agenda on their own.

Third theme: *China's experience reflects the flaws in the Washington Consensus in terms of both product and process.*

Agarwala was of the view that China's experience indicated that there were serious flaws in the *Washington Consensus*. He mentioned Joseph Stiglitz, Senior Vice President of the World Bank (now retired), who indicated that the danger with the *Washington Consensus* was that, it not only failed to work but also undermined the domestic capacity to carry out reforms.

Agarwala argued that if the World Bank accepts that there are fundamental flaws in the *Washington Consensus* then there should be a space for burden sharing of social and economic costs, which have originated from the implementation of reform programmes in line with the *Washington Consensus*. He raised questions about the validity of the structural adjustment programme by asking where did democracy and participation stand in the structural adjustment programme. He argued that the era of structural adjustment coincided with the era of major misgovernance at the international financial level. Somebody should demand compensation for the consequences of such global misgovernance for the damage this has done to the economies of the DCs.

Fourth theme: *Bangladesh's performance for the last 20 years is better than expected.*

Agarwala quoted Faaland who saw Bangladesh in the early '70s as a test case for development. He argued that during the last 25 years Bangladesh has done better than expected. The food and population equation is much better than he envisaged. There has

been significant progress in the family planning programme whilst Bangladesh is now less dependent on food imports. There has also been a remarkable improvement in the export sector. Also there is an exceptional achievement in reducing aid dependence. As a result the current account deficit remains quite low. The GDP growth rate is now around 5 percent. Macro indicators are also much better than he expected.

Fifth theme: *Lessons from Chinese experience*

Agarwala argued that the time has come to put the developing countries into the driving seat for guiding the destiny of their economies. He drew several lessons from the Chinese development experience. These are as presented below:

- (i) The mentality of dependency has to be avoided in order to ensure Bangladesh's development. Grameen Bank is an example of endogenous development. The Grameen Bank approach needs to be widely replicated throughout Bangladesh.
- (ii) Mentioning the default culture of bank loans in Bangladesh he argued for the need to bring better balance between discipline and freedom in the financial sector.
- (iii) Local government in Bangladesh should be invested with more resources and power.
- (iv) He also urged for more competition within the public sector. He noted that, China, instead of privatisation, injected competition into the state-owned enterprises. Jute and textile sectors in Bangladesh should be broken down into different competitive units so that they can improve their performance under pressure of competition and through enterprises level accountability.
- (v) He argued for the need to move away from the debate over government vs. market. Rather co-operation and interdependence should prevail between these two sectors. This approach was a radical departure from the *Washington Consensus*.

iii) Discussion

Taking part in the discussion Rehman Sobhan, Chairman, CPD, asked Agarwala to clarify how China responded to World Bank advice. Agarwala responded by observing that China did not accept World Bank's standard prescription for building a market economy and globalisation. Rather they were in favour of what they termed a *socialist market economy*, which provided a balance between socialist ideas and the market economy. He further observed that China was fully aware of the internal contradictions of a socialist market economy, because the essence of a market economy lay in the independent dynamic

provided by the forces of supply and demand whereas under socialism supply and demand was to be regulated within the Plan. But China was trying to establish a balance between these two contradictory positions. Again, referring to the issue of pension system reform, housing and urbanisation policy, Agarwala pointed out that China did not follow the World Bank prescription or advice.

Binayak Sen, Senior Research Fellow, BIDS, inquired whether inequality is rising or not in China. Agarwala replied that during 1978-84 rural household incomes rose much faster than urban income. But since 1984 this trend has been reversed. He argued that Mao-tse-tung had tried to effect a balance between rural and urban incomes. This policy has been continued under the post-Mao regime, through a continuing process of diversification of the rural economy.

Agarwala argued that small and medium towns located in and around the rural areas became growth centres which provided the dynamic conditions for diversifying the rural economy. In terms of political economy in China most people experienced some improvements in their living conditions. Even the most backward province of China recorded a 5 percent growth rate during the post-reform period. This widespread diffusion of economic gains made the Chinese economic reforms politically digestible for most of the population.

Binayak Sen further asked how the Chinese have brought their rural labour force into the non-agricultural sector. In reply, Agarwala pointed out that this has been realised through the industrialisation of the rural areas and modernisation of agriculture, which resulted in increasing labour productivity in the rural economy. The Chinese have also been able to transfer surplus rural labour from the countryside to the middle towns. Therefore, the urban areas are now getting more and more service oriented, in order to provide support to the adjacent rural economies which are becoming more linked to them.

Sobhan enquired about the TVEs. Agarwala observed that most of the TVEs are transformed versions of the old commune of the Maoist era. Managers of TVEs act like owners, which they are not. These TVEs are based on co-operative ownership. He admitted that the ownership of TVEs is not well defined. It is a new institutional category which merits further study.

Obaidullah Khan, former Regional Assistant Director General, FAO, pointed out that in China during the past two decades the land market has changed remarkably, through moves towards leasing out of land. Such a trend was unimaginable during the Maoist era.

Khaleda Nazneen, Project Director, CPD questioned whether the private sector in China is providing any social benefits to its employees. Agarwala replied in the negative and mentioned that even the TVEs are not under the publicly managed insurance coverage. Thus, the social security system is mainly confined to the state sector.

Wahiduddin Mahmud, President of BEA, commented that China, in terms of state sector reform and liberalisation, has done more than India and even more than what is stated in the *Washington Consensus*. He argued that the initial conditions have played a very significant role in these two countries, in influencing the outcome of reforms.

Agarwala argued that China did go for privatisation (which they term private sector development) in its own way and successfully realised its goals. On the other hand, India after 1991, has become totally confused about the reform/privatisation programme since the ownership of that reform programme belongs not to India but to the IFIs (International Financial Institutions). Therefore, India's reform programme was not well designed and was moving in the wrong direction. He argued that following the reform programmes, the private sector in India was not coming forward for accelerating infrastructure development whereas the investment by the public sector in this sector was declining.

Sobhan raised a question about how China handled the process of trade liberalisation. Agarwala responded that in China, the domestic prices of many products are lower than the import prices. Therefore, reduction of tariff was not a very effective means for trade liberalisation. He argued that the most important factor here was the mindset. The Chinese did not reform under any donor pressure. They have liberalised imports where their products were competitive in the international market and have established protection where necessary. They have also imposed quantitative restrictions on imports in a highly pragmatic manner so as to protect domestic industries.

K.A.S. Murshid, Research Director, BIDS, wanted to draw implications for Bangladesh from the Chinese experience. He wanted to know whether there was any Chinese strategy of development and what kind of incentives and institutions were needed to promote that kind of development. Agarwala explained that the Chinese experience was more of a process rather than a strategy of development. The most important lesson from China was to learn to establish a policymaking process that leads to building up self-confidence and promotes an endogenous development process. This approach gives strength to the whole development process. Institutional continuity was also very important. The Chinese put a great deal of emphasis on the development of *social capital* and this should be a lesson for Bangladesh. Agarwala pointed out that the Chinese have also given emphasis on

science and technological development. They are eager to access all varieties of modern technology.

Pierre Landel-Mills, former Bangladesh Country Director, World Bank, argued that the *Washington Consensus* did not occupy the stage for long and no longer exists today. This idea has been deconstructed. He admitted that China prefers intellectual partnership rather than intellectual domination by outsiders, but he argued that the Japanese are a much better example of self-reliant development than China. Agarwala considered Japan as a very different case from China. He was more interested in comparing Russia and China. He argued that Russia became the blind follower of the *Washington Consensus* and as a result devastated its economy and society.

Enayatullah Khan, Editor, *The Holiday*, mentioned that as long as reform programmes take into account social factors, the Chinese are satisfied. In Bangladesh, he argued, we are standing on a very uncertain ground regarding the issue of our reform programmes, as to macro economic stability etc. We have not been able to exploit what comparative advantages we already have. Bangladesh is also in a vulnerable position in the global context. He argued that in terms of political stability and political decision making much can be learnt from China.

Mahfuz Anam, Editor, *The Daily Star*, wanted to know how the leadership in China is so orthodox in terms of ideology, yet they could be so flexible and receptive to new ideas. Obaidullah Khan rejected the idea of ideological rigidity among the Chinese leadership and argued that from the very beginning they proved themselves to be very pragmatic and futuristic. He argued that even after the Chinese revolution in 1949 the new Communist regime was urged to take over management of many industrial units but this was rejected at the time. Therefore, the Chinese were always flexible. Agarwala agreed that, by and large, the Chinese do not have any dogmatic mindset. Even Mao-tse-tung was very much a practical Marxist.

S.M. Hashemi, from Grameen Trust, argued that in the intellectual field of Bangladesh there are some pockets of endogenous alternatives such as BRAC and Grameen Bank. There should be more such attempts in Bangladesh's development practices.

Laila Kabir, former President, MCCI, was of the view that bureaucracy in Bangladesh was very much aid-dependent, and the bureaucrats also made the politicians aid-dependent. She added that in Bangladesh bureaucracy interferes in almost every part of our life. She argued that the private sector in Bangladesh, with some broad limitations, was not doing badly, as for examples in the export and agricultural sector.

Rashed Khan Menon, Secretary General, Workers' Party, pointed out that the recent constitutional change in China have been in line with the development of the private sector. The economic system was now very much in line with the market system, but the political system was yet to be reformed.

Moyeen Khan, Member of Parliament and former State Minister for Planning, questioned whether there has really been any meaningful reform programme in our economy. He argued that there has been tremendous pressure by the donors on the Government of Bangladesh (GOB) to withdraw subsidy on fertiliser. This prescription by the donors did not take account of the importance of agriculture in Bangladesh. He observed that during 1991-96 BNP regime they wrote off 250 crore taka of rural agricultural debt, but donors opposed such a move. He further argued that under the reform programme the banking sector has been largely privatised, but the private sector banks were not visible in rural areas where 70 percent of the people live. Only nationalised banks are in operation in the rural areas.

Binayak Sen agreed with Agarwala about building our *intellectual shawraj* (intellectual liberty). He also argued for building consensus on major economic and social policies in Bangladesh. He mentioned that some consensus already exists regarding the country's education and family planning programmes.

Sajjad Zohir, Senior Research Fellow, BIDS, argued for continuity in institutions for development which he saw as a distinguishing feature of the Chinese experience. He acknowledged that there were some achievements in institutional building in Bangladesh. He also suggested that we explore paths to intellectual liberation.

Zaidi Sattar, from World Bank was of the view that what was good for China might not be good for Bangladesh. He argued that gradualism was not the best way for effecting reforms in Bangladesh, because some sectors, such as the financial sector, really need immediate reform. He mentioned that good governance was also a vital issue for reform.

Sobhan argued that in Bangladesh a number of micro successes, such as the RMG sector, Micro-credit, some NGO initiatives, the family planning programme, merited recognition. However, such micro-successes have yet to translate into a process of macro-economic transformation. Regretably not enough debate was taking place in the country after 18 years of reforms, to see whether the reforms have delivered the goods to the people of Bangladesh or whether, after all these years, there was a need for modification in the reform design. Whilst discussion on the issue of ownership over the reforms had been

ongoing for some years, not enough had been done to move towards recapturing ownership. The tragedy in Bangladesh was that successive government have been subordinating their policy agendas to the World Bank's policy advice. He argued that government has to be driven by a felt need to design its own policy agenda because without domestic policy ownership no reform programme would be viable. Regrettably that there was no evidence that successive governments are engaged in a search for an endogenous model.

Binayak Sen saw the *Washington Consensus* as ever expanding, now incorporating many issues such as governance, environment etc. This view was challenged by Sobhan who argued that the *Washington Consensus* does not appear to have changed its genetic character.

S.H. Kabir, Chairman, Reneta Ltd., finally asked the participants to think of an alternative agenda. Sobhan argued that any alternative agenda has to be made politically acceptable if it is to be sustainable. He observed that in the absence of attempts to initiate such a process of designing an alternative reform agenda some effort by civil society should be forthcoming. However, he suggested that we should also wait and see whether the GOB's efforts to design policy alternatives through *National Commissions* such as the *Commission on Administrative Reform* or on *Agricultural Policy* produced creditable policy alternatives which were then taken up for implementation by the GOB. He expressed his interest to look at the fate of these two Commissions which could serve as a test case of endogenous policy reform.

List of Participants
(in alphabetical order)

Dr. Imtiaz Ahmed	Dept. of International Relations Dhaka University
Mr. Mahfuz Anam	Editor, The Daily Star
Dr. Ramgopal Agarwala	former Chief Economist of World Bank in China
Professor S.M. Hashemi	Grameen Trust
Mr. Hasanul Huq Inu	General Secretary, Jatiyo Samajtantrik Dal
Ms. Laila Rahman Kabir	Former President, MCCI
Mr. S.H. Kabir	Chairman, Renata Ltd. and Treasurer, Board of Trustees, CPD
Mr. Enayatullah Khan	Editor, The Holiday
Dr. A. Moyeen Khan	Member of Parliament and Former State Minister for Planning, GOB
Mr. A.Z.M. Obaidullah Khan	Former Regional Director, FAO
Professor Wahiduddin Mahmud	Dept. of Economics, Dhaka University
Dr. Fasihuddin Mahtab	Former Minister for Planning, GOB
Mr. Rashed Khan Menon	Secretary General, Workers' Party
Mr. Pierre Landell Mills	Former Country Director, World Bank, Bangladesh
Dr. K.A.S. Murshid	Research Director, BIDS
Dr. Khaleda Nazneen	Project Director, Governance of the Healthcare Sector in Bangladesh, Part-II Comparative Analysis of Quality of Care Provided at the Public and the Private Facilities

Mr. Syed Nizamuddin	Economist, The World Bank
Mr. Atiqur Rahman	The World Bank
Dr. Atiur Rahman	Senior Research Fellow, BIDS
Professor Mustafizur Rahman	Dept. of Accounting, Dhaka University
Mr. Selim Raihan	Research Fellow, CPD
Dr. Zaidi Sattar	The World Bank
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