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Issue Brief No. 02

The Beijing Consensus:

An alternative approach
to development

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Introduction

The latest global financial and economic crisis has undermined the credibility of the neoliberal program for economic development and growth. While the US and European economies have dramatically contracted, emerging economies have suffered relatively less from the economic meltdown. A notable example is China, whose economic successes have brought the Chinese model to the fore as an alternative approach to development. Different aspects of China's development model are

collectively often referred to as the Beijing Consensus. The prospect of rapid economic growth without political liberalization is increasingly gaining popularity among developing countries that oppose the "one-size fits all" approach of the Washington Consensus. This Issue Brief reviews the different components of the Beijing Consensus and the implications for the international political and economic system.

The Beijing Consensus is increasingly viewed by developing countries as an attractive alternative to western development strategies based on free market and democracy.

Defining the Beijing Consensus

The Beijing Consensus reflects a new approach to development based on China's model for economic growth and political principles of non-interference and self-determination. The term was introduced in 2004 by Joshua Cooper Ramo, who contended that "China is marking a path for other nations around the world who are trying to figure out not simply how to develop their countries, but also how to fit into the international order in a way that allows them to be truly independent, to protect their way of life and political choices in a world with a single massively powerful centre of gravity." Viewed as a foreign creation, the term Beijing Consensus was never embraced by the Chinese leadership. Furthermore, there is no agreement on its existence, content or utility for understanding developments in China and abroad. Nonetheless, the term is widely used among policy makers and in the media, contributing to the widespread perception that the Beijing Consensus is changing the international order. Ramo defines the Beijing Consensus as the "new physics of Chinese power" based on three theorems (see box 1) that are discussed in more detail below.

Innovation-based development

First, the Beijing Consensus refers to China's willingness to experiment and use innovation as a driver of progress. The government's SciTech Guideline for 2006-2020 illustrates this (see box 2). China is investing heavily in research and development (R&D) and has figured among the world's top four R&D countries in recent years. This has resulted in China becoming a world leader in, for example, clean energy technology. Foreign direct

BEIJING CONSENSUS

- Innovation-based development
- Economic success measured not by per capita GDP but by its sustainability and level of equality
- Self-determination for China and for other countries vis-à-vis the United States:
 - Opposition to the Washington Consensus
 - Globalization on their own terms
 - Chinese influence by example, not weaponry
 - Develop asymmetric capabilities to balance against the U.S.

Source: Joshua Cooper Ramo: "The Beijing Consensus: Notes on the New Physics of Chinese Power." London: Foreign Policy Centre, 2004.

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INNOVATION

- R&D spending: USD 136 billion (2006 est.) – 2nd

Government's SciTech Guideline 2006-2020:

- Ratio of total investment of R&D over GDP should rise to over 2.5%
- Ratio of contribution of scientific and technological advancement to economic growth should be over 60%
- Rate of dependence on imported technologies should be reduced to less than 30%
- Both the number of patents obtained by Chinese citizens and the number of international citations of scientific papers by Chinese nationality authors should be within top 5 in the world
- Enrollment rates in elementary schools and junior high: 99%
- Higher education enrolment: 24.2%
- 82 million possess higher education degrees
- USD 29bn allocated to education, annual increase of 23.6%

Box 2: Emphasis on Science, Technology and Education

ECONOMIC SUCCESS

Traditional indicators:

- Real GDP growth: 9.1% (2009) up from 7.8% (1980)
- GDP (current USD): USD 4.985 trillion (2009) up from USD 189.4 billion (1980)
- GDP per capita.: USD 6700 (2009) up from USD 251 (1980)
- National Investment: 41.13% (2008) up from 28.78% (1980)

People-focused development indicators:

- Overall HDI value: 0.655 (2009) up from 0.368 (1980)

Other HDI indicators:

- Adult literacy rate: 93.9% (2009) up from 65.5% (1980)
- Life expectancy: 73.12 years (2008) up from 65.97 (1980)
- Infant mortality (per 1,000 live births): 16.6 (2009) down from 46.1 (1980)

Box 3: Development Beyond GDP

investment and expanding education play an important role in the rapid modernization of the Chinese economy. China aims to use education to turn its 1.3 billion population into human resources assets. When the People's Republic of China was founded in 1949, it had an 80% illiteracy rate and a 20% enrollment rate of schoolage children. A student population of 260 million in 2009 saw China with the world's largest educational system.

Alternative measurers of economic success

Using economics to improve society and enhance the quality of life is the second theorem of the Beijing Consensus. The centrality of GDP to traditional assessments of economic development levels is a notion rejected by China as the sole indicator of economic success. Instead, China's policies are "people-focused" and measure development based on the quality of life of the population, sustainability and equality levels. Merely looking at GDP would fail to fully appreciate China's development since this does not take into account, for instance, the progress China has made on the Human Development Index (see box 3) or the fact that China has lifted 300 million people out of the poverty pit.

The emphasis on sustainable and equitable economic growth lies at the heart of the government's efforts to reconcile a communist regime with a capitalist economy. The discrepancy between rhetoric and reality, however, must be noted. China has one of the world's most uneven wealth distributions and a large divide between urban and rural development levels.

Self-determination

The third Beijing Consensus component is self determination for China and other countries vis-à-vis the US. China emphasizes the need for developing countries to actively seek independence from outside pressure.

Opposition to the Washington Consensus

While Ramo argues that China has thrived by pointedly ignoring the Washington Consensus, in fact, China adheres to eight of the ten elements of the Washington Consensus (see box 4). Yet, China has convincingly demonstrated that deregulated, market-based decision making is not the only path to economic growth and integration in the global economy. In his book *The Beijing Consensus (2010)* Stephan Halper describes the Chinese



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WASHINGTON CONSENSUS

- Fiscal discipline
- Reordering public expenditure priorities away from non-merit subsidies towards public goods
- Tax reform that combines broad tax base with moderate marginal tax
- Liberalized interest rates
- Competitive exchange rate
- Trade liberalization
- Liberalization of inward FDI
- Privatization
- Deregulation
- Strong protection of property rights

Source: John Williamson, 1989

Box 4: The Ten Points of the Washington Consensus

model as a form of illiberal state-directed capitalism, in which the economy is dominated by large state-owned companies in sectors that are vital to the national interests, such as energy, public utilities, transportation and heavy industry. The private sector plays merely a supporting role and is heavily influenced by the ruling political elite through political patronage. The appeal of the Beijing Consensus to developing countries stems partly from the success of this Chinese model and the failure of the Washington Consensus in a large part of the developing world.

Globalization on its own terms

China partakes in globalization on its own terms, which Ramo calls “practicing globalization with Chinese Characteristics”. The government heavily influences China’s competitiveness on the international market by maintaining low labor costs, an undervalued currency, heavy state subsidies to boost the export driven economy, and a highly protectionist market. Foreign investment is carefully orchestrated, for example with the creation of export processing zones. China is also trying to promote its national product standards as global standards.

Chinese influence by example, not weaponry

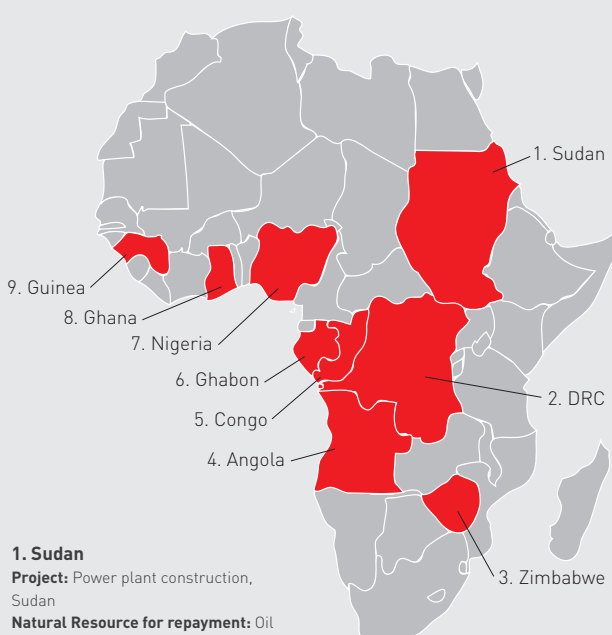
China has boosted its public diplomacy efforts, including policies as smile diplomacy, harmonious world, and the establishment of Confucius Institutes to promote the Chinese language and culture. It has also launched a media strategy with the aim of creating a China-friendly, public opinion environment. These efforts to create soft power are contributing to the spread of the Beijing Consensus by example. This fits into the government’s objective of a “peaceful rise” and security doctrine of non-interference, which aim to ease fears about China’s sudden ascension as global power.

Develop asymmetric capabilities to balance against the US

With its large state-owned companies and huge capital reserves, China’s most powerful instrument to counterbalance the US and to gain political clout is economic diplomacy. Particularly in Africa, China has pursued an active diplomacy to acquire access to natural resources in return for investments in local infrastructure. Increasingly, China is diversifying investments in Africa away from the energy sector to include the service and manufacturing industries (see figure 1). China is also diversifying its foreign holdings by venturing into the debt-ridden economies in Europe, an area where it long played only a minor role. Already owning a significant part of American debt, China recently offered to buy billions of dollars’ worth of bonds in the deeply financially troubled economies of Ireland, Greece, Spain and Portugal. China is also providing larger loans than global lenders like the World Bank and the IMF. Where the World Bank lent \$200 million to the Philippines, China lent \$2 billion. China’s overseas financial aid rose from \$1.5 billion in 2003 to \$27.5 billion in 2006. Key recipients include regimes that may not necessarily qualify for Western aid. For instance, China has pledged \$600 million to Cambodia (more than ten times US aid) and given \$400 million to Myanmar in the past five years (compared to US aid of \$12 million per year).

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CHINESE INVESTMENTS IN AFRICA



1. Sudan

Project: Power plant construction, Sudan
Natural Resource for repayment: Oil
Year: 2001
Total Chinese financing: US\$128m

2. DRC

Project: Key road, rail and other infrastructure, DRC
Natural Resource for repayment: Copper & cobalt
Year: 2008
Total Chinese financing: US\$9bn, reduced tot US\$6bn

3. Zimbabwe

Project: Construction of coal mines and thermal power stations, Zimbabwe
Natural Resource for repayment: Chrome
Year: 2006

4. Angola

Project: Construction of infrastructure, Angols
Natural Resource for repayment: Oil
Year: 2004
Total Chinese financing: US\$1.02bn

5. Congo

Project: Congo River Dam, Congo
Natural Resource for repayment: Oil
Year: 2001
Total Chinese financing: US\$280m

6. Ghabon

Project: Belinga iron ore project including key infrastructure, Gabon
Natural Resource for repayment: Iron Ore
Year: 2006
Total Chinese financing: Approx US\$3bn

7. Nigeria:

Project: Construction of turbine power plant, Nigeria
Natural Resource for repayment: Oil
Year: 2005
Total Chinese financing: US\$298m

8. Ghana

Project: Bui Dam, Ghana
Natural Resource for repayment: Cocoa
Year: 2007
Total Chinese financing: US\$562m

9. Guinea

Project: Souapiti Dam, Guinea
Natural Resource for repayment: Bauxite
Year: 2006
Total Chinese financing: US\$1bn

Based on Martin Davis, "Will Chinas Influence Africa's Development?", Gordon Institute of Business Science, University of Pretoria, May 10, 2010.

Political Implications

The Beijing Consensus has two important political implications. First, the rise of China is affecting the global balance of power to the detriment of the US. Despite its military inferiority, China is creating strong economic ties and gaining political clout by offering countries beneficial terms of trade, aid and investment. In the future, countries will increasingly look to China for diplomatic support and form alliances with China. This development is reinforced by the emulation of the Beijing Consensus by developing countries. At present, countries propped by Chinese support for sovereignty and rejection of non-interference with national affairs are already showing signs of defying US power. For example, Iran's defiance of US and European sanctions against its nuclear program was bolstered by the support it received from China. The Chinese government argues that China does not have to observe sanctions against Iran that were drawn up unilaterally by the US and the EU. Iranian Parliament Speaker Ali Larijani said that "China can play a more significant and effective role concerning Iran's nuclear issue."

Second, the Beijing Consensus contributes to a declining consensus on the values that underpin the international system. Autocratic regimes see in China the proof that economic growth does not have to be associated with increased political freedom or democratization (see box 5). China's large-scale financial aid to these regimes is undermining the incentive to improve on governance and to conform to standards on human rights, the rule of law and democracy. By consolidating these regimes, the Beijing Consensus is resulting in a lack of progress on what are increasingly perceived as Western agendas, such as climate change, non-proliferation, and the "responsibility to protect" doctrine for intervention in humanitarian crises. In addition, Chinese purchases of European debt can ease complaints from European states about Beijing's human rights records and positioning in international affairs.

Figure 1: Chinese investments in Africa



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“The Beijing Consensus shows that having a non-democratic country can also give a good life for the people.”

Former prime minister Tun Dr Mahathir Mohamad of Malaysia called democracy a “failed” ideology and held up China’s model of authoritarianism as an alternative “worth studying”.

“We are making some political reforms, but slowly. We can make economic reforms without political reforms like China, which is doing very well.”

Nabil Sukkar, Managing Director of the Syrian Consulting Bureau and Investment

“At the Heavenly Gate in Beijing hope is born.”

Former South African president Thabo Mbeki, arguing the China model has application to Africa.

“China and Venezuela’s economies, dominated by major state owned companies, offer the world a healthy model for growth as the global financial system crumbles.”

Venezuelan president Hugo Chavez

“China has been able to develop its economy without plundering other countries and the Chinese economic miracle is indeed a source of pride and inspiration.”

President Robert Mugabe of Zimbabwe urged other countries in the world to emulate the example of China, which he said provides the best example of how countries should relate globally at economic, political and cultural levels.

“Why could Mumbai not be more like Shanghai?”

Indian prime minister Manmohan Singh

“China’s approach should serve as a paradigm for South-South cooperation.”

Brazilian president Luiz Inacio Lula da Silva

“I find that the Chinese treat us as equals. The west treats us as former subjects.”

President Festus Mogae of Botswana

Box 5: Emulation of the China model

Economic Implications

With its extensive economic diplomacy, China has created a climate in which supporting Chinese growth also becomes a non-Chinese interest, for instance in Africa (see figure 2). Against this background and the budgetary problems of advanced economies caused by the crisis, China’s economic model is gaining ground. This has several implications. First, governments are abandoning the Washington Consensus and playing an increasingly important role in the support, ownership and management of businesses (see also WFF Issue Brief *The End of the*

Free Market). Second, China is becoming increasingly successful in changing the rules of the game. With its subsidies, export tax rebates and undervaluation of its exchange rate, China has subverted international trade rules. However, despite pending claims, the WTO has not been able to force China to comply. This has contributed to the impression that it pays to subvert or use international rules selectively, which may prompt other countries to follow China’s example. Third, the growing role of the Chinese government in the economy has raised fears that China will use its economic might for political gain. As a consequence, other governments are also increasingly assessing their own economic policies through a strategic lens. As a result of these developments, countries are turning to protectionist measures. WTO Director Lamy observes an emerging pattern of increased import licensing, import tariffs and surcharges, and trade remedies to support national industries. This trend is also informed by rising unemployment due to the crisis and the popular view that China is “stealing jobs”. Elevated trade barriers could cause world trade to shrink by up to 8% and reduce global welfare by up to \$350 billion. The return of government interference in the economy and the increase of protectionist measures put pressure on the rules and values that are in place to safeguard the market capitalist system and free trade regime.

The New Approach

The rise of the Beijing Consensus has not only empowered China and developing countries but has also contributed to the perception of China as a threat to liberal market democracies. Treating China as a threat leads to counterproductive tit-for-tat policies, such as increased protectionism, and has human consequences, leaving millions of people in poverty in the developing world. Western policy makers should realize that growing commercial relations with China are undeniably an increasingly important determinant of interstate relations. These relations do not benefit from a debate that is framed as a zero-sum game in terms of China versus the West. Rather, the new approach should focus

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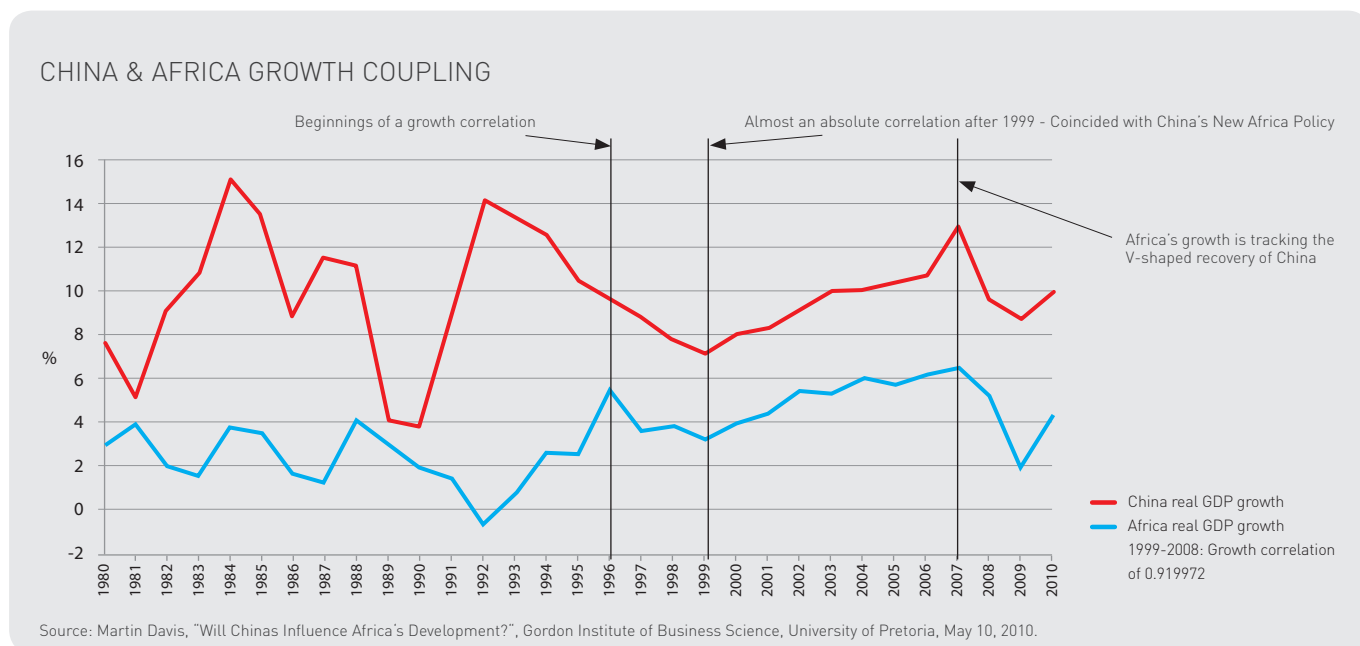


Figure 2: Chinese growth becomes non-Chinese interest

on transforming the appealing elements of the Beijing Consensus into win-win policies for both emerging and advanced economies.

First, the Beijing Consensus' emphasis on people-focused development offers a good starting point towards a shared agenda for political reform. There is an opportunity to send a message to China that sustainable and equitable economic growth are not well-served with poor working conditions, low wages, political oppression, environmental irresponsibility and human rights violations. However, China's leadership is unlikely to be receptive to addressing all these issues in the short term. Increasing wages, for example, would erode the competitive basis of China's economy and could therefore undermine the regime. So the new approach should focus on more feasible reforms, such as introducing minimal labor standards, environmental stewardship, and gradually reducing government censorship. This would allow the Chinese government to continue to meet its pledges to its people to enhance their quality of life, while Western (and domestic) demands for greater political freedoms can be met.

Second, polarization between liberal market democracies

and autocratic state capitalist countries should be tempered by a global strategy for economic growth. The Beijing Consensus' emphasis on innovation provides the basis for such a strategy, which should include limiting protectionism and increasing pressure on states to abide by international trade regulations. For example, encouraging China to allow its currency to appreciate to avoid inflation would, at the same time, reduce foreign criticism of the low value of the Chinese currency as an unfair subsidy to Chinese goods. In turn, appreciation of the Chinese currency would make foreign goods less expensive in China, creating more internal demand. With internal demand rising, the Chinese economy can move from an export-driven model towards a more mature one, based on investment and consumer demand. This would reduce the dependence of the Chinese on selling goods abroad, which could ease the fears and protectionist behavior of other countries, and make international economic growth more sustainable.

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GRANARIA  HOLDINGS



TNO innovation
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