



Choong Yong Ahn, Amar Bhattacharya, Ricardo Ffrench-Davis,
Stephany Griffith-Jones, José Antonio Ocampo, Yung Chul Park, Yunjong Wang,
Wing Thye Woo, Charles Wyplosz and others

Diversity in Development

Reconsidering the Washington Consensus

Edited by
Jan Joost Teunissen and
Age Akkerman

FONDAD

Diversity in Development

Reconsidering the Washington Consensus

Edited by
Jan Joost Teunissen and
Age Akkerman

FONDAD
The Hague

ISBN: 90-74208-24-X

Copyright: Forum on Debt and Development (FONDAD), 2004.
Cover photograph: Jan Joost Teunissen

Permission must be obtained from FONDAD prior to any further reprints, republication, photocopying, or other use of this work.

This publication was made possible thanks to the support of the Department for Development Cooperation of the Dutch Ministry of Foreign Affairs.

Additional copies may be ordered from FONDAD:
Noordeinde 107 A, 2514 GE The Hague, the Netherlands
Tel.: 31-70-3653820, Fax: 31-70-3463939, E-mail: a.bulnes@fondad.org
www.fondad.org

*From: Diversity in Development - Reconsidering the Washington Consensus
FONDAD, The Hague, December 2004, www.fondad.org*

Contents

Acknowledgements	ix
Notes on the Contributors	x
Abbreviations	xvi
Preface by Alicia Bárcena	xix
1 The Need for Visions on the Economy: By Way of Introduction	1
<i>Jan Joost Teunissen</i>	
Part I	
The Washington Consensus: What is Right and What is Wrong?	
2 Serious Inadequacies of the Washington Consensus: Misunderstanding the Poor by the Brightest	9
<i>Wing Thye Woo</i>	
1 The Karma of Development Economics	9
2 The Emergence of Washington Consensus Mark 1: Getting the State Out	14
3 The Emergence of Washington Consensus Mark 2: Bringing the State Back In	18
4 A Critique of the Logical and Empirical Foundations of Washington Consensus Mark 2	23
5 Beyond the Washington Consensus to Misunderstand the Poor	28
3 The Dogmatism of the Washington Consensus	44
<i>Ariel Buira</i>	
4 The Need for a More Flexible Approach to Development	53
<i>Barbara Stallings</i>	
5 Globalisation and the Development Agenda	61
<i>José Antonio Ocampo</i>	
1 Global Historical Disparities	63
2 Recent Latin American Frustrations	67
3 A More Balanced Global Order	72
4 National Strategies for Dealing with Globalisation	76

6	Improving Rather than Abandoning Reforms	87
	<i>Anthony Boote</i>	
7	The Widening and Deepening of Democratic Development	90
	<i>Osvaldo Sunkel</i>	
8	Reforming the Reforms of the Washington Consensus	100
	<i>Ricardo Ffrench-Davis</i>	
	1 Theoretical Outlierness	103
	2 Real Macroeconomic Imbalances and a Macro-For-Growth	106
	3 Insufficient Productive Investment and Missing Factors	110
	4 Export Upgrading and Productive Linkages	111
	5 Closing Remarks	113
9	“Right” Prices for Interest and Exchange Rates	116
	<i>Roberto Frenkel</i>	
 Part II		
Financial Stability at the National, Regional and Global Level: Governance, Markets and Institutions		
10	Financial Instability in Emerging Market Countries: Causes and Remedies	125
	<i>Charles Wyplosz</i>	
	1 Introduction	125
	2 Causes of Financial Instability: the Institutional Connection	127
	3 Remedies and Policy Implications	132
	4 Conclusion	141
11	Competent Institutions and Selective Globalisation	145
	<i>Yunjong Wang</i>	
12	In Search of a New East Asian Development Paradigm: Governance, Markets and Institutions	150
	<i>Yung Chul Park, Choong Yong Ahn and Yunjong Wang</i>	
	1 Introduction	150
	2 Strengths and Weaknesses of the East Asian Model	152
	3 The Reform Agenda	159
	4 Conclusion	166

13 Path-Dependent Reforms of the East Asian Development Model	170
<i>Joseph Ramos</i>	
14 East Asian Cooperation, Social Policies and the WTO	174
<i>Zdeněk Drábek</i>	
15 The Search for a Stable and Equitable Global Financial System	181
<i>Amar Bhattacharya and Stephany Griffith-Jones</i>	
1 Progress on International Financial Reforms	182
2 The Limitations of Crisis Prevention Measures	187
3 A New Basel Accord	189
4 Capital Flows to Developing Countries	193
5 Public-Private Links for Increasing Capital Flows	194
6 Increasing the Voice of Developing Countries	200
16 Global Crisis Prevention and Liquidity Provision	208
<i>Esteban Jadresic</i>	
Part III	
Towards a New Development Agenda	
17 Africa and the Washington Consensus	215
<i>Brian Kahn</i>	
18 The Potential of the Doha Development Agenda	223
<i>Zdeněk Drábek</i>	
19 A Development and Research Agenda for the Poorest Countries	232
<i>Roy Culpeper</i>	

Acknowledgements

This book is yet another result from the Global Financial Governance Initiative (GFGI), which brings together Northern and Southern perspectives on key international financial issues. In this initiative, FONDAD is responsible for the working group Crisis Prevention and Response, jointly chaired by José Antonio Ocampo, under-secretary-general for Economic and Social Affairs of the United Nations, and Jan Joost Teunissen, director of FONDAD.

FONDAD very much appreciates the continuing support of the Dutch Ministry of Foreign Affairs and the stimulating ongoing cooperation with the Economic Commission for Latin America and the Caribbean (ECLAC) in Santiago de Chile, the North-South Institute in Ottawa, the Korea Institute for International Economic Policy (KIEP) in Seoul and the many other organisations with which it works together.

A special thanks goes to Ricardo Ffrench-Davis and his colleagues at ECLAC, who assisted in the organising of the conference in Santiago de Chile from which this book emerges, and to Adriana Bulnes and Julie Raadschelders, who assisted in the publishing of the book. We are grateful to the contributing authors for their efforts to improve their own chapters as well as those of their co-authors. This collective effort has made, once again, the tenacious publishing process a joyful and inspiring enterprise.

Jan Joost Teunissen
Age Akkerman
October, 2004

Notes on the Contributors

Amar Bhattacharya (1952) is senior advisor, Poverty Reduction and Economic Management Network at the World Bank. In this capacity, he is responsible for coordinating the Bank's work on international financial architecture. He was principal author of a World Bank study on *Private Capital Flows to Developing Countries* and has authored several publications relating to recent financial crisis. Since joining the Bank, he has a long standing involvement in the East Asia region, including as division chief for Country Operations, Indonesia, Papua New Guinea and the South Pacific. Prior to joining the World Bank, he worked as an international economist at the First National Bank of Chicago.

Choong Yong Ahn is the president of the Korea Institute for International Economic Policy (KIEP). From 1974 until taking up his post at KIEP in January 2002, he was a professor of economics at Chung-Ang University in Seoul. He has served as a consultant to the World Bank, as UNIDO chief technical advisor to the Economic Planning Unit of Malaysia, and as a member of the Presidential Economic Advisory Council in Korea. He has also held the position of chairman of the board at Chohung Bank in Korea. He has published numerous articles on development economics, including industrial, financial and trade aspects, in both English and Korean.

Anthony Boote (1953) is assistant director in the Policy Development and Review Department at the IMF. He is responsible for reviewing and signing off on key country documents for 25 mostly low-income countries in Africa, Asia, Europe, and the Middle East. He has worked extensively on low-income country issues and helped design the joint Bank/Fund Heavily Indebted Poor Countries (HIPC) Initiative and the Poverty Reduction Strategy Paper (PRSP) approach, and was the Fund representative at the Paris Club of official creditors. He has also worked on Caribbean countries from 2001–2003 including being the Fund mission chief on Jamaica and worked on Eastern Europe in the late 1980s. He joined the Fund in 1987 after 10 years in the UK Treasury.

Ariel Buira (1940) is director of the G-24 Secretariat in Washington D.C. Previously, he was senior member of St. Anthony's College, Oxford University and ambassador of Mexico in Greece. He served at the Central Bank of Mexico as advisor to the director-general, director of International Economic Research, international director, deputy governor and as a member of the Board of Governors. At the IMF he has been staff member and executive director. He has lectured on economic analysis at the Institute of Technology of Monterrey and was professor of economic theory at the Centre for Economic and Demographic Studies of El Colegio de México. He has a wide range of publications. His latest papers refer to the conditionality and governance of the Bretton Woods institutions. In 2003 he edited a book for the G-24, *Challenges to the World Bank and the IMF, Developing Country Perspectives* (Anthem Press, London).

Roy Culpeper (1947) is president of the North-South Institute in Canada since 1995. He joined the North-South Institute in 1986 and was vice-president and coordinator of research from 1991 until he was appointed president. Before joining the Institute, his work experience included positions in the Manitoba government's Cabinet Planning Secretariat, the federal Department of Finance, and the Department of External Affairs and International Trade. From 1983 to 1986, he was advisor to the Canadian executive director at the World Bank in Washington. At the Institute, he has conducted research on a broad range of issues relating to international finance including a comprehensive study of regional development banks. He is the author of numerous publications including *Titans or Behemoths?: The Multilateral Development Banks*; and *Global Development Fifty Years after Bretton Woods*. Since his appointment as president, the Institute has annually published the *Canadian Development Report*.

Zdeněk Drábek (1945) is senior counsellor, Economic Research and Analysis, at the World Trade Organization. He is chairman of the board of the Joint Vienna Institute, a training institute of the IMF, World Bank, BIS, OECD, EBRD and WTO. He served as the principal adviser to the governor of the Central Bank and as plenipotentiary in the Federal Ministry of Economy in Czechoslovakia. He was the chief negotiator for the Czechoslovak Government of the Europe Agreement with the European Union and the Uruguay Round Agreements in GATT. He was senior economist at the World Bank from 1983 to 1990, and chairman of the economics department at the University of Buckingham in England. He has published widely on topics related to international finance and trade. His most recent book is *Globalization Under Threat: Stability of Trade Policy and International Agreements*.

Ricardo Ffrench-Davis (1936) is principal regional advisor on economic policy at ECLAC. He is also professor at the Instituto de Estudios Internacionales and the department of economics at the University of Chile. He was formerly director of research of the Central Bank of Chile, vice president at the Center for Economic Research on Latin America (CIEPLAN) in Santiago, and deputy manager of the Central Bank of Chile. He has been a visiting professor at both Oxford and Boston University and at institutes in France, Italy, Spain and Sweden. He has coordinated important international research groups, in particular on international finance and macroeconomics. He has published widely on international economics, development strategies, foreign financing and Latin American economies. His most recent book is *From Capital Surges to Drought: Seeking Stability for Emerging Economies* (Palgrave Macmillan, 2004).

Roberto Frenkel (1943) is senior researcher at the Centro de Estudios de Estado y Sociedad (CEDES) in Buenos Aires since 1977. Since 2003 he is professor at the postgraduate programme on regional integration and international economic relations co-organised by FLACSO, Argentina, and two universities in Barcelona, Spain. At the Universidad de Buenos Aires he is professor and director of the Graduate Programme on Capital Markets. He is a member of the Task Forces on Capital Market Liberalization and Macroeconomic Policies at the Initiative for Policy Dialogue of the University of Columbia in New York. He has been a member of the board of directors of the Banco de la Provincia de Buenos Aires, and has been consultant to UNDP, ILO, ECLAC and OECD.

Stephany Griffith-Jones (1947) is professorial fellow at the Institute of Development Studies at Sussex University. She started her career in 1970 at the Central Bank of Chile. She worked at Barclays Bank International in the UK. She has led many research projects on debt and private capital flows, and has acted as senior consultant to governments in Eastern Europe and Latin America and to many international agencies, including the World Bank, the IDB, the EU and UNCTAD. She has published widely on international finance and macroeconomic policies, especially in relation to Latin American and East European economies. Her latest book is *From Capital Surges to Drought: Seeking Stability for Emerging Economies* co-authored with Ricardo Ffrench-Davis.

Esteban Jadresic (1960) is director of the International Division at the Central Bank of Chile. He is the principal advisor and executive officer reporting to the Board on the assessment of the international economic outlook, the management of external assets and liabilities, foreign exchange regulations, and relations with foreign and international counterparts.

Previously he was a senior economist with the Research Department at the IMF, professor of macroeconomics at the University of Chile, and researcher with the Corporation for Latin American Economic Research. At the Central Bank, he also served as deputy chief economist and manager of foreign trade policy. He has acted as a consultant to international and domestic institutions and published articles in specialised journals and books.

Brian Kahn (1953) is deputy chief economist and senior deputy head of the Research Department at the South African Reserve Bank. He is also a member of the Bank's Monetary Policy Committee. Before joining the Bank he was professor of economics and director of the School of Economics at the University of Cape Town. He was also a research associate at the London School of Economics' Centre for Research into Economics and Finance in Southern Africa (CREFSA). He has been a consultant to various domestic and international institutions and has been actively involved at the policy formulation level in South Africa. His publications have mainly been in the field of capital flows and monetary and exchange rate policy in South Africa.

José Antonio Ocampo (1952) is under-secretary-general for Economic and Social Affairs of the United Nations. He was from 1998 to 2003 executive secretary of the UN Economic Commission for Latin America and the Caribbean (ECLAC). Previously, he was minister of finance and public credit of Colombia, director of the National Planning Department and minister of agriculture. He was a senior researcher and member of the board of directors of FEDESAROLLO in Bogotá, Colombia. He has been advisor to the Colombian government and director of the Center for Development Studies at the Universidad de los Andes. His academic activities have included being professor of economics at the Universidad de los Andes and professor of economic history at the Universidad Nacional de Colombia. He has served as a consultant to the IDB, the World Bank and the United Nations. He has published widely in academic journals and books.

Yung Chul Park (1939) is a professor of economics at Korea University. He served as ambassador for international economy and trade, Ministry of Foreign Affairs and Trade of Korea, chairman of the board of Korea Exchange Bank in Seoul, Korea, and a member of the board of Korea Telecom. He previously served as the chief economic adviser to president Doo Hwan Chun of Korea, as president of the Korea Development Institute, as president of the Korea Institute of Finance, and as a member of the Bank of Korea's Monetary Board. He was director of the Institute of Economic Research at Korea University, taught at Harvard University

and Boston University as a visiting professor and worked for the IMF. In 1998, he managed the merger of Korea's two largest commercial banks as chairman of the CBK-Hanil Bank Merger Committee. He has widely published on international finance and monetary economics.

Joseph Ramos is dean at the faculty of economics and business administration of the University of Chile since November 2002 and professor of economics at the University of Chile since 1968. A policy analyst and specialist in labour economics, macroeconomics and development he has been working for many years on advisory missions to Latin American governments, for the International Labour Organization, and ECLAC. He is the author of many books and articles in international journals. His latest book is *Políticas de Empleo e Institucionalidad Laboral para el Siglo XXI* (Employment Policies and Labour Market Institutions for the 21st Century, Santiago, 2003).

Barbara Stallings is William R. Rhodes research professor and director, Political Economy of Development Programme at the Watson Institute for International Studies of Brown University. From 1993-2002 she was director of the Economic Development Division at ECLAC in Santiago, Chile. Before joining ECLAC, she was professor of political economy at the University of Wisconsin-Madison for 15 years. She was also a visiting professor and researcher at Harvard, Yale and Columbia universities in the United States and at several research centres in Latin America and Japan. Her latest book is *Growth, Employment, and Equity: The Impact of the Economic Reforms in Latin America and the Caribbean* (with Wilson Peres). Currently, she is working on a project, funded by the Ford Foundation, on domestic finance in Latin America and East Asia.

Oswaldo Sunkel (1929) is president of the Corporación de Investigaciones del Desarrollo (CINDE); is senior professor and until recently director of the Instituto de Asuntos Públicos of the University of Chile; and is a fellow of the Academia Chilena de Ciencias Sociales. He was a professorial fellow at the Institute of Development Studies, University of Sussex, held the Tinker Chair of Latin American Studies at the University of Texas, the Baccardi Eminent Scholar Chair at the University of Florida and has been visiting professor at several other North American and European universities. He has received the Kalman Silvert Award of the Latin American Studies Association. He has been closely associated with ECLAC in several capacities and locations from 1955 to 1968 and from 1987 to 2002. He has published widely on topics related to development, economic history, international relations, environment and the role of the state.

Yunjong Wang (1962) is director of the Centre for Regional Economic Studies at Korea Institute for International Economic Policy (KIEP). He has been a consultant and advisor to Korean government's numerous projects and committees. He has been a visiting scholar at the IMF. He has served as a consultant to various international organisations including ADB, ADBI and the UN. He has published many books and articles in various professional journals, mainly focusing on regional financial arrangements and integration, new international financial architecture, and international finance. He has been recently involved with the ASEM (Asia-Europe Meeting) Kobe Research Project, China-Japan-South Korea Financial Cooperation Symposium, and various ASEAN+3 financial and monetary cooperation projects.

Wing Thye Woo (1954) is professor in the Department of Economics, University of California at Davis. He is special advisor for East Asian Economies in the Millennium Project of the UN and visiting professor at the Earth Institute of Columbia University. He is the director of the East Asia Programme within the Center for Globalisation and Sustainable Development at Columbia University. In 1994, he was a member of a consultant team to China's Ministry of Finance that helped to design tax and exchange rate reforms. From 1994 to 1996, he led an international team to study the reform experiences of centrally-planned economies. In 1997-1998 he directed the Harvard Institute for International Development project "China's Integration into the World Economy". He has been an adviser to a number of governments and has held visiting positions at different universities all over the world. He is editor and member of editorial advisory boards in various economic journals. He has published widely in professional economic journals and books.

Charles Wyplosz is professor of international economics at the Graduate Institute of International Studies in Geneva where he is director of the International Centre for Money and Banking Studies. He is also director of the International Macroeconomics Programme of CEPR. He has been associate dean for research and development at INSEAD and director of the PhD programme in economics at the École des Hautes Études en Sciences Sociales in Paris. He is member of the Conseil d'Analyse Économique, which reports to the Prime Minister of France, of the French finance minister's Commission des Comptes de la Nation, of the Group of Independent Economic Advisors to the president of the European Commission, of the panel of experts of the European Parliament's Economic and Monetary Affairs Commission, and of the Bellagio Group. He is a regular columnist in several newspapers and the author of several books and numerous articles.

Abbreviations

ADB	Asian Development Bank
ADBI	Asian Development Bank Institute
AMS	Aggregate Measure of Support (WTO measurement of subsidy)
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations (Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, Vietnam)
ASEAN+3	ASEAN and China, Japan, and Korea
BIS	Bank for International Settlements
BWIs	Bretton Woods Institutions
CAC	collective action clause
CCL	Contingency Credit Line (of the IMF)
CEPAL	see ECLAC
CEPR	Centre for Economic Policy Research
CIDA	Canadian International Development Agency
EBRD	European Bank for Reconstruction and Development
ECA	export credit agency
ECLAC	Economic Commission for Latin America and the Caribbean (of the UN); (in Spanish CEPAL)
EEFSU	Eastern Europe and the former Soviet Union
EMS	European Monetary System
ERM	Exchange Rate Mechanism (European)
EU	European Union
FDI	foreign direct investment
FLACSO	Facultad Latinoamericana de Ciencias Sociales
FSF	Financial Stability Forum
FSAP	Financial Sector Assessment Programme
FTA	free trade area
G-7	Group of Seven (Canada, France, Germany, Italy, Japan, UK, US)
G-10	Group of Ten
G-20	Group of Twenty (includes G-7 countries and a range of emerging economies)
G-22	Group of Twenty-Two (includes G-7 countries and a range of emerging economies)

G-24	Group of Twenty-Four (includes African, Asian and Latin American countries)
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
HIPC	heavily indebted poor country
IDB	Inter-American Development Bank
IFC	International Finance Corporation (of the World Bank)
IFF	International Finance Facility (of the IMF)
IFIs	international financial institutions
IIF	Institute of International Finance
ILO	International Labour Organization
IMF	International Monetary Fund
IRB	internal ratings based
ISI	import-substitution industrialisation
KIEP	Korea Institute for International Economic Policy
LTCM	Long-Term Capital Management
MDG	millennium development goal
NAFTA	North American Free Trade Agreement
NEPAD	New Partnership for Africa's Development
NPL	non-performing loan
ODA	official development assistance
OECD	Organisation for Economic Cooperation and Development
OORT	outward-oriented trade regime
PPP	purchasing power parity
PRS	poverty reduction strategy
PRSP	Poverty Reduction Strategy Paper (of the IMF)
ROSCs	Reports on Observance of Standards and Codes
SDDS	Special Data Dissemination Standard (of the IMF)
SDRM	Sovereign Debt Restructuring Mechanism
SME	small and medium-size enterprise
SOE	state-owned enterprise
SRI	socially responsible investment
TRIMs	Trade-Related Investment Measures (WTO Agreement)
TRIPS	Trade-Related Aspects of Intellectual Property Rights (WTO Agreement)
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
UNRISD	United Nations Research Institute for Social Development
US	United States
WTO	World Trade Organization