

# Beyond the Washington Consensus?

## Asia and Latin America in search of more autonomous development

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Whatever one's views on the wider accuracy or usefulness of current debates about 'American empire', they have helpfully reopened important questions about the balance between normative persuasion and raw coercive power in shaping the international order. Benjamin J. Cohen's article in this special issue, in keeping with a broad orthodoxy in international political economy, focuses on the ways in which different kinds of material resources can shape states' autonomy when faced with the question of 'who adjusts' to international financial disequilibria.<sup>1</sup> For much of the developing world, however, at least since the mid-1980s, the question of who adjusts has had a very clear answer. Macroeconomic adjustment has been a powerfully experienced necessity for almost all states. The more significant questions were how adjustment would take place and to what extent it would be associated with profound changes to the development paradigm: that is, what kind of shift would be required not just in economic policy but also in the broader social and political relationships within which economic policy-making is embedded at the domestic level.

The answer to this question has always depended on an interaction between what we might call the 'rule-makers', that is the Washington institutions, and the 'rule-takers', often associated with the developing world. Outcomes depend not only on levels of external material pressure but also on the political economy of domestic reactions, which are, in turn, partly shaped by ideological and technical views at the international level. For much of the 1980s debate almost universally revolved around the appropriate degree of domestic economic liberalization. But reactions to the financial crises of the late 1990s in Asia and Latin America have been more varied. In Asia, Malaysia responded with nationalist rhetoric and capital controls. Elsewhere, responses initially conformed more closely to IMF preferences but have since diverged to some extent. Many countries have also built up very large foreign exchange reserves to protect themselves from future crises and IMF involvement. In

\* The research for this paper comes from a project on 'Dealing with global crisis: distributional and political impacts', a part of the World Economy and Finance Programme funded by the ESRC. We would like to acknowledge the support of the ESRC and of the programme.

<sup>1</sup> See also David Andrews, ed., *International monetary power* (Ithaca, NY: Cornell University Press, 2006). For a more social view that is closer to our perspective here (though in a very different social and historical context), see Leonard Seabrooke, *The social sources of financial power: domestic legitimacy and international financial orders* (Ithaca, NY: Cornell University Press, 2006).

Latin America, although discussion of a turn to the left has sometimes been exaggerated, some governments are experimenting much more overtly with nationalist policies and are trying to rebuild their domestic legitimacy through changes in the style of politics and occasionally even via new experiments in welfare. This article explores the complex responses of 'rule-takers' to the challenges of development in Asia and Latin America and tries to assess their significance.

For those inclined to think in terms of stark, binary oppositions between 'neo-liberalism' and 'resistance', or 'sound policy' and 'populism', the changes to date may not appear particularly dramatic. There have been few attempts at rapidly expanding social spending in the face of fiscal constraints; policies have not shifted towards wholesale protectionism; and they certainly have not included idealistic calls for a New International Economic Order. Nonetheless, some things *have* changed, and those changes demonstrate the enduring significance of domestic politics in shaping relationships between the states and the global economy. Appeals to the technocratic, impersonal logic of the 'market' no longer straightforwardly trump governmental concerns about the social and political consequences of adjustment. Indeed, many governments in the developing world now feel under considerable political pressure to consider the impact of economic policy-making on domestic constituencies. This does not mean that governments are seeking to move away from global integration. But it does suggest that they are searching for new and more strategic ways to engage with the market—for more creative policies that promote national interests—rather than engaging in a blind rush to liberalization. This shift has called a halt to some of the more ambitious attempts, emerging in the 1990s, to reshape international economic norms in accordance with developed-country preferences. While the medium-term outcome is undoubtedly uncertain, there is today more to debate and consider with regard to development paradigms than there has been for several decades.

## The international political economy of development and the neo-liberal paradigm

Responses to crises across the developing world in the 1980s, and even the early 1990s, were not exactly uniform. Nevertheless, they revolved sufficiently closely around a core agenda of liberalization to justify talking about them in terms of a 'Washington Consensus'. The phrase is, of course, somewhat problematic. When John Williamson coined it, he aimed to emphasize the technical, externally oriented, macroeconomic aspects of the 'counter-revolution' in development economics.<sup>2</sup> However, the new paradigm as promoted by the international financial institutions (IFIs) went far beyond immediate deflationary adjustment, the need to counter balance of payments deficits or even a new commitment to controlling inflation and balancing budgets. Privatization, liberalization and (more in Latin America than in

<sup>2</sup> See John Williamson, 'What Washington means by policy reform', in John Williamson, ed., *Latin American readjustment: how much has happened* (Washington DC: Institute for International Economics, 1989), pp. 5–20. On the counter-revolution more broadly, see John Toye, *Dilemmas of development: reflections on the counter-revolution in development theory and policy* (Oxford: Blackwell, 1987).

Asia) an attack on corporatism, labour organization and welfare regimes inevitably constituted a radical change in the basis of domestic legitimacy and state–society relationships.<sup>3</sup> For many, the phrase ‘Washington Consensus’ also has strong political connotations. It came to suggest policy imposition by a powerful constellation of forces with their roots in Washington but spreading much more widely, rather than simply a particular set of policy measures for responding to crisis.

The new liberalism had its roots in Europe and was first taken up as part of a political realignment in the West that emerged in reaction to the economic turmoil of the 1970s and the apparent exhaustion of Keynesianism. However, it was soon seen as offering an attractive solution to the debt crisis in the developing world. Indebted governments were presented with a powerfully simple message: cutting back the role of the state in the economy through privatization, liberalization and welfare retrenchment would unleash market forces, promoting growth, while *reducing* fiscal demands on overstretched government budgets and IFI resources.<sup>4</sup>

Neo-Gramscian analysis captures nicely the mutually supportive relationship between a plausible set of ideas about political economy on the one hand and a complex set of international political alliances on the other.<sup>5</sup> From the point of view of western governments, neo-liberal ideas presented political and economic solutions to a range of developmental and international problems. But they were not *simply* an attempt to promote the interests of the rule-makers. They were part of a much more radical set of social and political changes that were mutually self-reinforcing at domestic and international levels. Nevertheless, aspects of the agenda undoubtedly echoed their ideas and reflected their interests. In direct economic terms, market opening in middle-income countries boosted global trade and provided new opportunities for outward investment (both foreign direct investment and portfolio flows). Additionally, particularly for the United States in Latin America, there were often overlapping strategic interests in undermining left-wing politics and promoting governments with a pro-Washington, orthodox economic orientation. Intellectual changes and political interests reinforced one another to produce a new vision of global order that was then promoted through a range of different channels, ranging from self-conscious and deliberate political pressure in some contexts to a much more diffuse shift in elite economic ideas that was not deliberately orchestrated by governments.

Export of the new ideas to the developing world was a complex political process. It was not achieved solely by coercive means and it was not uniform. Divergent

<sup>3</sup> Williamson has tried to distance himself from the policies included in this wider sense of the term, accepting that many of them are flawed but arguing that what he meant by a Washington consensus (basic macroeconomic balance and fiscal responsibility) still stands. See John Williamson, ‘Did the Washington consensus fail?’, outline of speech at the Center for Strategic and International Studies, Washington DC, 6 Nov. 2002.

<sup>4</sup> The shortage of IFI resources in the face of the debt crisis was a key factor in changing IFI conditionality. The best account is Margaret De Vries, *Balance of payments adjustment 1945–1986: the IMF experience* (Washington DC: IMF, 1987).

<sup>5</sup> The best introduction to neo-Gramscian perspectives is still Robert Cox, ‘Gramsci, hegemony and international relations’, *Millennium: Journal of International Studies* 12: 2, Summer 1983, pp. 162–75. On neo-liberal hegemony, see (among many others) Robert Cox, ‘Civil society at the turn of the millennium: prospects for an alternative world order’, *Review of International Studies*, 25: 1, Jan. 1999, pp. 1–28. Approval of some neo-Gramscian analysis should not be taken to imply a wholehearted endorsement—in particular, neo-Gramscian accounts tend to be overly deterministic and underestimate domestic political agency.

national and regional histories meant that the overall impact of the paradigm shift was variable. Asian policy in the 1970s was in some ways fairly close to neo-liberal orthodoxy anyway. High savings rates and success in attracting inward investment from Japan meant that crises in the 1980s in Asia were not nearly as severe as, and certainly had far less political impact than, those elsewhere in the developing world. In many parts of Latin America, in contrast, accepting the Washington Consensus involved a much more traumatic and profound transformation that not only extended across economic and social policy but challenged the role of family, community, the state and the individual. Nonetheless, the extent of policy implementation was always variable. It depended on, among other factors, material circumstances such as levels of debt and national ability to restart growth, the degree of disillusionment with older models, international dependence and local politics.

What is striking is that, despite literature suggesting that greater economic openness eventually led to demands for greater regulation and social protection in developed countries, developing countries appeared to respond to crisis in the 1980s and 1990s by deepening liberalization.<sup>6</sup> Across the developing world, the new intellectual orthodoxy filtered into treasuries and finance ministries through officials' overseas training or experience working for the IFIs. At the same time, technocrats acquired influential positions because the new orthodoxy was also gaining political support from sections of the domestic elite that were either dissatisfied with the outcome of earlier policies or saw potential political benefits in supporting the new agenda.<sup>7</sup>

Equally, financial crises were key moments in driving forward the liberalization agenda, shifting the domestic balance of power by creating growing fears of investment withdrawal and helping to drive home the message that there was no alternative to neo-liberal policy. Following neo-liberal scripts, political decisions were made to pursue liberalization, primarily in an attempt to enhance investor confidence—to counter deep-seated expectations that crisis would be met with 'populist' responses and a return of protectionism and inflation. Liberalization therefore tended to be joined with appeals to international technocratic norms and political calls for restraint in the face of market pressure, along with a wide variety of context-specific strategies for dealing with domestic opposition.<sup>8</sup> Additionally, in many developing countries populist politics were constrained by the effect of recession. In short, while popular images of the Washington Consensus as a set of imperial policies forced on passive developing countries by the self-interested western powers are plainly a gross oversimplification, neo-liberalism came to set the agenda for political economy globally in ways that narrowed the sphere of the possible and concentrated debate around questions about free markets, to the apparent exclusion of other possibilities.

<sup>6</sup> Stephan Haggard and Sylvia Maxfield, 'The political economy of financial internationalization in the developing world', *International Organization* 50: 1, Winter 1996, pp. 35–68.

<sup>7</sup> For accounts stressing the role of technocrats, see John Williamson, ed., *The political economy of policy reform* (Washington DC: Institute for International Economics, 1994).

<sup>8</sup> We provide some brief indications below. For a fascinating account of the process outside the regional contexts we address, see Rob Jenkins, *Democratic politics and economic reform in India* (Cambridge: Cambridge University Press, 1999).

The neo-liberal high tide, as it turned out, was short-lived. The 1990s witnessed a new-found interest in regulation and the state, springing from two overlapping sources in Washington. One was an ambitious agenda for market access, focused on investment flows and financial services activities. The other was an increasing awareness of the need to re-legitimize the neo-liberal agenda in the face of criticism of its social costs. The two came together in what has been described as a 'Post-Washington Consensus'.<sup>9</sup>

The renewed ambition of the rule-makers to shape development was driven by a perception that western trading interests were increasingly concentrated in either multinational production or services industries.<sup>10</sup> Market access in these areas involved managing 'behind the border' issues of labour market structures, competition law, investment regulation and banking supervision. A variety of efforts were launched in the late 1990s to 'harmonize' forms of regulation internationally, including extensions of the WTO's mandate, the abortive Multilateral Agreement on Investment, and the standards and codes portions of the 'new international financial architecture'.<sup>11</sup> Enhancements to state capacity were required in order to implement this new agenda. Equally, this 'second stage' of institutional reform was seen as potentially providing a remedy for disappointing economic performance in the wake of the reforms of the 1980s. Broader structures of transparency and, to a lesser extent, accountability, it was thought, would promote a more stable macroeconomic environment, greater predictability in policy-making and, hence, a more secure investment environment.<sup>12</sup> The simple 'roll back the state' message became a more complex one of reinvigorating state capacity for some tasks (neutral regulatory activity) but not others (industrial policy). In a pragmatic *aggiornamento*, the IFIs called for a broader agenda which was supposed to reconcile open market policies with a commitment to (democratic) politics and poverty reduction. The new agenda was clearly connected with a broader Clintonesque enthusiasm for liberal democracy, accompanied by more modest attempts at human rights promotion. Over time, the 'progressive' side of the new aid agenda also took on a logic of its own, particularly in the form of growing NGO advocacy and political pressure exerted through the US Congress. The results are clearest in World Bank policy, where more consultative forms of project management and greater emphasis on social spending have gone furthest, although even the IMF has reluctantly become more involved in 'civil society engagement', good governance and social safety net provision.<sup>13</sup>

<sup>9</sup> Joseph Stiglitz, 'More instruments and broader goals: moving toward the post-Washington consensus', WIDER annual lecture, Helsinki, Jan. 1998.

<sup>10</sup> I. Destler, *American trade politics* (Washington DC: Institute for International Economics, 1995).

<sup>11</sup> One of the best assessments of the sheer ambition of this kind of project is Jacqueline Best, 'From the top down: the new financial architecture and the re-embedding of global finance', *New Political Economy* 8: 3, Nov. 2003, pp. 363–84.

<sup>12</sup> For arguments along these lines, see esp. Pierre Dhonte, 'Conditionality as an instrument of borrower credibility', IMF Papers on Policy Analysis and Assessment, PPAA/97/2 1997; IMF, *Good governance: the IMF's role* (Washington DC: IMF, 1997). The arguments are representative of a wider new-found interest in 'institutions' within the economics profession.

<sup>13</sup> This discussion is necessarily condensed. The best account of the politics of a growing interest in governance is still Carol Lancaster, 'Governance and development: the views from Washington', *IDS Bulletin* 24: 1, Jan.

The significance of reactions to the financial crises of the late 1990s needs to be assessed against this backdrop. Faith in the narrow, fundamentalist neo-liberalism of the 1980s was already waning by the early 1990s. It was replaced by a more complex, nuanced and holistic account of global economic development. For some, a new-found interest in more liberal politics and in social safety nets represented a progressive step forward. For others, it was seen as sophisticated legitimization for an increasingly ambitious 'roll-out' phase of neo-liberalism incorporating a wider range of institutional reforms that would use the state to guarantee a more sustainable reproduction of the market.<sup>14</sup> The core point, however, is that Bretton Woods institutions have lost some ground as newly assertive domestic constituencies have put pressure on governments to think about development in more national and social terms. The result has been to call a clear halt to some aspects of the most ambitious projects of global harmonization and a generally more assertive stance on the part of domestic governments, although not a wholesale rejection of global economic integration or 'sound' macroeconomic policy. The question is whether this change will merely be temporary or whether it points to fundamental changes on the part of 'rule-takers' in the global economy.

### The rise and decline of the Washington consensus in Latin America

Latin America's search for economic development has consistently been shaped by its responses to US hegemony since the early twentieth century. The region's first experiment with *laissez-faire* economics at the turn of the century coincided with the early consolidation of US power in the hemisphere.<sup>15</sup> After 1945, and most particularly in the 1960s and 1970s, the dominant paradigm of import-substituting industrialization created tensions in the inter-American relationship, through, for example, policies of nationalization of US-owned assets or attempts to renegotiate the tax terms on which US multinationals operated in Latin American countries. The Economic Commission for Latin America (ECLA/CEPAL), meanwhile, the intellectual source of many of the ideas about development in the region in this period, was, as Jorge Nef argues, infused with 'a distinct Latin American "counter-culture" to the dominant Manifest Destiny-cum-anti-communism and *laissez-faire* themes of the inter-American system'.<sup>16</sup>

As the Latin American economies slowed down in the 1970s under the weight of, inter alia, energy price hikes, the complexity of protectionist tariffs, the loss

1993, pp. 9–15. On the IMF, see Ben Thirkell-White, *The IMF and the politics of financial globalisation* (Basingstoke: Palgrave, 2005). On the World Bank, governance, social policy and civil society, see Jonathan Pincus and Jeffrey Winters, *Reinventing the World Bank* (Ithaca, NY: Cornell University Press, 1999); Robert Wade, 'The US role in the malaise at the World Bank: get up, Gulliver!', G-24 Discussion Paper, Sept. 2001. On congressional pressure, see Ben Thirkell-White, 'The Wall Street–Treasury–IMF complex after Asia: neo-liberalism in decline?', in Richard Robison, ed., *The neo-liberal revolution* (Basingstoke: Palgrave, 2006).

<sup>14</sup> See e.g. Kanishka Jayasuriya, *Statecraft, welfare and the politics of inclusion* (Basingstoke: Palgrave, 2006).

<sup>15</sup> For an interesting and detailed discussion of the role of the United States in the provision of economic advice in the early twentieth century, see Paul Drake, *The money doctor in the Andes: the Kemmerer missions 1923–1933* (Durham, NC: Duke University Press, 1989).

<sup>16</sup> Jorge Nef, 'The political economy of inter-American relations: a structural and historical overview', in Richard Stubbs and Geoffrey Underwood, eds, *Political economy and the changing global order* (Oxford: Oxford University Press, 1994), pp. 410–20.



of industrial competitiveness and the difficulties of internal capitalization, faith in Latin America's alternative approach waned, especially within the authoritarian governments which had come to dominate the region. Pinochet's Chile was the first to abandon import substitution in favour of liberalism, and the Argentinian dictatorship also took steps to withdraw the state from the economy under the leadership of Martinez de Hoz.<sup>17</sup> Nevertheless it took the wholesale collapse of the region in the wake of the debt crisis in 1982 fully to discredit statist development. The debt crisis meant that the IMF and other multilateral donors were brought in and stabilization programmes quickly put in place. Initially designed as short-term measures, the adjustment programmes of the mid-1980s gradually settled into a new orthodoxy around export promotion and deregulation of the economy. In short, Latin America, having found itself in an extremely weak bargaining position and with little faith left in indigenous economic recipes, surrendered to US rules. Bolivia emulated Chile in introducing privatization policies in 1985; Mexico followed suit in 1986 and Argentina in 1989, as the model slowly spread throughout the region.

Credit rationing and external crisis clearly provided an opportunity for the international community, led by the United States, to press for a turn to neo-liberal policy. But it would be wrong to see Washington Consensus policies in Latin America as the result of US imposition alone. The 'success' of the new liberalism was due to a confluence of factors, of which external pressure was just one.<sup>18</sup> Economically liberal ideas made sense to the new generation of rulers who came into office in the 1980s and 1990s. Politically, the region's embrace of the Washington consensus was ensured, perhaps ironically, by the turn to democracy as the new civilian elites cast about for international support and opted, as Drake rather crudely puts it, for 'subordination [to the United States] over anarchy or isolation'.<sup>19</sup> Similarly, accepting the liberal turn in development policies was the result of more than just political pragmatism. Democratization was characterized by a genuine shift to the centre and the discredit of leftist ideas. Indeed, the stability of democratic transitions was predicated on the end of the revolutionary utopia in the region, with the result that it was possible to present marketization and free market economics as a way of strengthening democracy itself. For conservative elites, traditionally wary of democratic politics, accepting the uncertainties of democracy was made easier by the fact that the left seemed to have been defeated or broken by the dictatorships; and the willingness of Chilean left-wing parties, in particular, to accept neo-liberalism in exchange for political inclusion seemed to bear witness to a genuinely new regional consensus on the economy.

As a result, for just over a decade US–Latin American relations were largely convergent. The US willingness to provide debt relief through the Brady Plan, engage in political dialogue through the hemispheric summits and involve Latin American governments in an interregional discussion of the rules for regional

<sup>17</sup> David Rock, 'Racking Argentina', *New Left Review*, Sept.–Oct. 2002.

<sup>18</sup> Paul Drake, 'The hegemony of US economic doctrines in Latin America', in Eric Hershberg and Fred Rosen, eds, *Latin America after neo-liberalism: turning the tide in the 21st century?* (New York: New Press, 2006), pp. 26–48.

<sup>19</sup> Drake, 'The hegemony of US economic doctrines', p. 27.

**Table 1: Poverty and extreme poverty in Latin America, 1980–2000**

	Poverty		Extreme poverty	
	Millions of People	% of population	Millions of people	% of population
1980	135.9	40.5	62.4	18.6
1990	200.2	48.3	93.4	22.5
1997	203.8	43.5	88.8	19.0
1999	211.4	43.8	89.4	18.5
2000	207.1	42.5	88.4	18.1
2001	213.9	43.2	91.7	18.5
2002	221.4	44.0	97.4	19.4

*Source:* Authors' compilation based on data from the Economic Commission for Latin America and the Caribbean (ECLAC).

integration certainly helped. The rules on development in the region were sponsored by Washington and the US government attempted to lock them in place through a 'new' regionalism, primarily understood as a promise to open the US market to the rest of the hemisphere, and later, when the hemispheric project foundered, through increasingly complex and overlapping bilateral and subregional trade and investment deals.<sup>20</sup> Even the 1995 bail-out by Washington to prevent the collapse of Mexico's economy (and the possibility of contagion within NAFTA) was taken as a signal of the United States' new seriousness of purpose and commitment to the region.

Of course there were important distinctions in the depth and pace with which the Washington consensus was adopted; local characteristics were key to how the reform process unfolded and its impact on the ground. Even so, by the mid-1990s neo-liberal free-trade, market-friendly policies had become consolidated as the rule in virtually every Latin American country. And for a decade they seemed to work, at least in macroeconomic terms. The region recovered during the first half of the 1990s, in part as a result of a renewed inflow of foreign capital that followed the first round of macroeconomic stabilization and economic reforms. Per capita GDP rose at an annual rate of 2 per cent and, on that basis, evaluations of the reforms

<sup>20</sup> See Jean Grugel, 'Latin America and the remaking of the Americas', in Andrew Gamble and Anthony Payne, eds, *Regionalism and world order* (Basingstoke: Palgrave, 1996), pp. 131–67; Jean Grugel, 'New regionalism and modes of governance: comparing US and EU strategies for governance in Latin America', *European Journal of International Relations* 10: 4, Dec. 2004, pp. 603–26; Nicola Phillips, 'Hemispheric integration and sub-regionalism in the Americas', *International Affairs* 79: 2, March 2003, pp. 327–49; Nicola Phillips, 'US power and the politics of economic governance in the Americas', *Latin American Politics and Society* 47: 4, Dec. 2005, pp. 1–25.



were positive.<sup>21</sup> The positive effects of Washington Consensus reforms also helped reduce inflation and dismantle inefficient and patronage-ridden state enterprises. However, poverty, inequality and unemployment increased dramatically in many countries. The number of poor people increased from just over 200 million at the beginning of the 1990s to more than 211 million at the end of the decade (see table 1). The emphasis on market openness, meanwhile, made countries more vulnerable to the external environment.

In retrospect, it is clear that the view from within Latin America that there was no alternative to neo-liberalism began to unravel in the early 1990s,<sup>22</sup> amid a slowdown in growth following currency difficulties, rising indebtedness (especially pronounced in Argentina) and a growing awareness of the high social costs the liberal model had exacted. In fact, the first mass rejections of market democracy can be traced back to the protests and riots that erupted in Venezuela and Argentina in 1989, though governments were largely able to control dissent until 2001. In Bolivia, where governments consistently failed to construct anything resembling a social consensus over the direction of the economy, the crisis of neo-liberalism was manifested in a tendency to national disintegration, a loss of control by ruling elites and an inability even to crisis-manage because of lack of economic resources. In contrast, in Brazil and, to a lesser extent, Chile, popular dissatisfaction has focused more on the social and distributional costs of competitiveness. In Brazil discontent with the costs of economic modernization and external vulnerability led to the election of the country's first president from the leftist Workers' Party. The most longstanding, and certainly one of the more moderate, of the alternative projects, Brazil under Lula, illustrates the difficulties of trying to straddle commitments both to economic openness and to welfare and social inclusion. In Chile, decades of economic success appear to have left a profound legacy of social exclusion, contributing to demands for social spending and a more active state in terms of social policy in particular. In Venezuela, meanwhile, the Bolivarian revolution of Hugo Chavez represents as much a deep-seated rejection of elite capture of the state as popular rejection of an externally imposed political economy of liberalization.<sup>23</sup>

Not all of Latin America, in other words, is now in massed flight from Washington's close embrace—or, indeed, from neo-liberalism. Mexico remains firmly within the US sphere of influence, through NAFTA. And despite rhetoric to the contrary during the elections, Chile under Michelle Bachelet has remained faithful to the 'open markets' policies of her predecessors. Moreover, because Chile is politically useful to Washington as a showcase for stable liberal growth, the United States has offered it commercial inducements in order to retain its ability to 'steer' the Chilean economy. This has had the effect domestically of allowing Chilean elites to claim

<sup>21</sup> Sebastian Edwards, *Crisis and reform in Latin America: from despair to hope* (Washington DC: World Bank, 1995); World Bank, *Global economic prospects and the developing countries* (Washington DC, 1997).

<sup>22</sup> Ronaldo Munck, 'Neo-liberalism, necessitarianism and alternatives in Latin America: there is no alternative (TINA)?', *Third World Quarterly* 24: 3, June 2003, pp. 495–511.

<sup>23</sup> For a discussion of the impact of anti-neo-liberal protests on Latin American political economy in general, see Jean Grugel and Pia Riggirozzi, eds, *Governance after crisis in Latin America* (Basingstoke: Palgrave, forthcoming 2008).

that they enjoy a particularly 'special' relationship with the United States,<sup>24</sup> which, in turn, militates to some extent against a widespread rejection of the model. Nevertheless, there is a real sense that the region as a whole is seeking alternative development strategies; and it is to their exploration that we now turn.

### Moving away from the Washington consensus in Latin America

It is clear that attempts to articulate alternatives to the Washington Consensus have emerged primarily in those countries where the social and economic price of neo-liberalism was inordinately high (Argentina), or where US-supported democracy has turned out to be exceptionally corrupt, inefficient and unresponsive to the needs of ordinary people (Venezuela), or both (Bolivia). In both Venezuela and Bolivia, calls for a new political economy of development draw on a combination of local ideas about Latin American (and even Andean) differences from North America, along with a reassertion of national identity. In Argentina and Uruguay, in contrast, we can detect the re-emergence of intellectual traditions that date from the import-substituting period of industrialization.<sup>25</sup> Brazil is something of a different case. Though the country has habitually positioned itself as an alternative to the United States in terms of regional leadership, the rhetoric of government under Lula has been less overtly anti-American than might have been expected. Brazil remains committed to market-led growth. But Brazilian policy-making is dominated by an overriding sense of the importance of the national interest alongside a statist vision of development, and this means that Brazil can never be a close ally of the United States.<sup>26</sup>

In sum, popular discontent with the Washington Consensus in Latin America today stems from a variety of sources, including the growing assertiveness of ordinary people and the rise of new political forces through the ballot box, as well as the emergence of alternative economic ideas. These quite varied origins mean that to talk of the emergence of a coherent 'new left', anti-US axis in Latin America is to overstate the case. We might better speak of a series of incipient 'new lefts' and a range of different and uncertain development projects.<sup>27</sup> A new regional political economy is not yet there. But, equally, we should not ignore what unites the new wave of Latin American governments: a sense of nationalism after years of accepting global prescription, (varying degrees of) anti-Americanism and an interest in using the state to shape the market.<sup>28</sup> Chavez, Morales, Kirchner and Tabare Vasquez share a mission to refound the nation-state and re-embed development through targeted state intervention, and a discursive commitment to social justice. All of

<sup>24</sup> On Washington's 'steering' of the Chilean economy, see Craig Arceneaux and David Pion-Berlin, *Transforming Latin America: the international and domestic origins of change* (Pittsburgh, PA: University of Pittsburgh Press, 2005), ch. 3.

<sup>25</sup> See F. Panizza, 'Unarmed utopia revisited: the resurgence of left-of-centre politics in Latin America', *Political Studies* 53: 4, Dec. 2005, pp. 716–34.

<sup>26</sup> Arceneaux and Pion-Berlin, *Transforming Latin America*, pp. 61–9.

<sup>27</sup> J. Castaneda and M. Morales, *Leftovers: tales of the two Latin American lefts* (London: Routledge, 2008).

<sup>28</sup> On the new left in Latin America, see K. Roberts, 'Repolicizing Latin America', Woodrow Wilson Center, 'Update on the Americas', Nov. 2007; Hershberg and Rosen, *Latin America after neo-liberalism*; Grugel and Riggirozzi, *Governance after crisis*.

this is, needless to say, a far cry from old-style Latin American revolution. Tabare Vasquez, for example, described his programme for government in Uruguay in the following way: 'If you ask me whether, from an ideological perspective, our government's program is a socialist program . . . it is not. It is a national program, a deeply democratizing one, a program that seeks solidarity, social justice, economic growth with justice, in other words, human development.'<sup>29</sup>

This moderation is not necessarily recognized as such in Washington, where there has been some talk of a return to 'populism'. While the new emphasis on the state in development invites comparison to some extent with the high period of populism of the mid-1940s to late 1960s, it should not be exaggerated. There is a much greater respect for the democratic form of politics than was the case in the past, even in Venezuela and Bolivia. In fact, unlike previous populist projects, emerging leftist governments in the region are showing that they can be compatible with rigorous fiscal behaviour and open economies. The 'left' today should not be read as automatically corresponding to 'anti-capitalist forces'. Especially in the Southern Cone, governments are seeking to break with US-sponsored rules but not to replace them by autarky. The emphasis is on striving for a measure of nationalism in an open economy. Rather than revealing a gap between rhetoric and practice, what this means is that Latin America's new left governments are favouring mixed markets and social democratic policies, and trying to combine fiscal discipline, foreign investment and capitalist ventures with interventionist policies, such as price control and taxation, to help pay for new safety nets for the poor. Ultimately, the search for alternative development paradigms brings together a pragmatic acceptance of open markets and a more left-wing political and social agenda. Furthermore, this is reinforced by a new approach to intra-hemispheric integration and a gradual shift towards new trade and financial opportunities in Europe and Asia.

Theoretically, all this is bound up with discussions, from the 1990s, of the extent to which the shift to global and regional governance changes and challenges US power. In practice, developmental space for this new political economy has partly been engineered through conscious attempts to reduce dependence on external finance and partly provided by what might be termed 'luck' in the form of rising commodity prices. A dynamic export sector, aided by judicious manipulation of the exchange rate, provided the key to Argentina's spectacular recovery from default and collapse in 2001 and allowed the government to clear US\$9.8 billion of debt in December 2005.<sup>30</sup> Venezuela's oil wealth is also pivotal. In the last five years, Chavez has been 'outspending and out-promising' the United States in underwriting debt and offering strategic injections of capital to its neighbours. In addition to providing 200,000 barrels a day (worth perhaps \$1.6 billion a year), his government has announced new policies of aid for the region totalling some \$5.5 billion.<sup>31</sup>

<sup>29</sup> *El Pais* (Montevideo), 3 March 2005, quoted in C. Vilas, 'The left in South America and the resurgence of national-popular regimes', in Hershberg and Rosen, *Latin America after neo-liberalism*, p. 245.

<sup>30</sup> J. Grugel and P. Ruggirozzi, 'The return of the state in Argentina', *International Affairs* 83: 1, Jan. 2007, pp. 87–108.

<sup>31</sup> *The Economist*, 15 March 2007.

Other projects, such as the projected Banco del Sur, which is designed to act as a regional alternative to US-sponsored institutions including the IMF and the World Bank, are also under way. Chavez's initiatives also seem to have kick-started a broader cross-regional interest in creating a common energy policy. Although still tentative, policies such as the joint venture between Argentina's state-managed ENARSA (Energía Argentina) and Venezuela's PDVSA (Petróleo de Venezuela) and emerging arrangements for the supply of natural gas between Argentina, Brazil and Bolivia all point to what may be a serious attempt at regional cooperation on energy within South America.

In stark contrast to the 1960s and 1970s, the emergence of a development approach that consists of rejecting US policy advice does not seem, as yet, to have seriously disrupted inter-American relations. Certainly there have been tensions, focused mainly on Venezuela and, to a lesser extent, Bolivia. But the United States, caught in the quagmire of the Middle East, is currently much less concerned with events in Latin America than usual. At present, US Latin American policy consists of little more than a series of bilateral deals concerning trade and periodic initiatives on migration and drugs.<sup>32</sup> The result is that the overarching vision for the region so characteristic of the 1980s and even the 1990s, which led to such tight policing of regional development, has all but disappeared. Washington needs, at least for the time being, to seek compromise in the region rather than confrontation. How long this will persist is important for understanding the sustainability of the new left, but difficult to predict.

### The politics of 'liberalization' in Asia in the 1980s and 1990s

The Asian experience fits much less neatly into a narrative about the rise of global liberalism and the decline of welfare capitalism, followed by reaction. Debate has not been about a state that stands for redistribution versus a market that stands for growth. Rather, it has been about the extent to which the state can shape markets in order to promote political and social goals. The developmental state model in South Korea was also about promoting *domestic* business. Its primary goal was to ensure that capital was used for technological growth and export upgrading, but that focus (almost as a by-product) also ensured labour-intensive growth that created jobs. In its weaker South-East Asian variants, in contrast, there was a greater role for foreign direct investment but the state still tried to secure 'beneficial' investment that would create jobs.<sup>33</sup>

The region's political economy was, therefore, pro-capital but not liberal. Economic nationalist projects were anti-communist and hostile to popular

<sup>32</sup> On migration, see Nicola Phillips, 'Migration as development strategy? The new political economy of dispossession and inequality in the Americas', IPEG Papers on the Global Political Economy 27, 2007.

<sup>33</sup> On the East Asian 'developmental state', see Alice Amsden, *Asia's next giant: South Korea and late industrialization* (Oxford: Oxford University Press, 1990); Meredith Woo-Cummings, ed., *The developmental state* (Ithaca, NY: Cornell University Press, 1999). On South-East Asia, see Jomo Kwame Sundaram, Chen Yung Chung, Brian Folk, Irfan ul Haque, Paruk Pongpaichit, Batarn Simatupang and Mayuri Teteshi, eds, *South-East Asia's misunderstood miracle* (Boulder, CO: Westview, 1997); Gary Rodan, Kevin Hewison and Richard Robison, eds, *The political economy of South-East Asia*, 2nd edn (Oxford: Oxford University Press, 1997).

mobilization and labour activism. Reasonable levels of popular acceptance were secured on the basis of a social bargain in which exclusionary systems of political–business power were tolerated in exchange for stability and economic growth. For the United States, the absence of any socialist edge to this economic nationalism meant that, although not exactly welcomed, it was tolerated in the context of the Cold War. Consequently, ‘liberalization’ debates now revolve around *both* the balance between domestic business protection and foreign business competition in producing growth *and* the likely impact of different models of growth on employment and social protection. Domestic business has tended to feel threatened by foreign competition but also to want to escape state tutelage. Social fears of exclusionary state–business power are growing, but there are also worries that undermining local companies will damage job prospects, even if it also opens space for enhanced labour power and (in the context of the 1990s) the creation of some new welfare safety nets.

The global economic crisis of the late 1970s and early 1980s had a far less dramatic impact in Asia than in Latin America. Economic slowdowns triggered some change, as fiscal pressures and a more liberal international economic consensus combined to scale back state promotion of heavy industry, particularly in South-East Asia. But a combination of increased investment and some swift macroeconomic adjustment meant that the crisis was handled without borrowing from the IMF.<sup>34</sup> In South-East Asia, adjustment was assisted and job-creating growth accelerated by foreign capital flowing in from North-East Asia as a result of export production being increasingly outsourced to South-East Asia following the Plaza Accord. The primary beneficiaries of privatization, liberalization of domestic utilities markets and increased government outsourcing were large, politically well-connected, domestic conglomerates. The economic dynamism all this created, along with liberalization of domestic capital markets, led to a boom in portfolio investment in South-East Asian domestic companies which sowed the seeds of the later financial crisis.

The role of the state in the economy was reduced, then, but largely in response to pressure from newly assertive domestic business (albeit with some assistance from foreign, or foreign-trained, technocrats). Greater foreign access was permitted in some areas of the economy, but others were retained as fiefdoms for the new politico-business class.<sup>35</sup> At this stage the influx of foreign business was creating jobs and the results were not immediately problematic. However, overall, the state had shifted away from a policy stance that could easily be packaged as a national project of creating broad-based economic growth. Its most obvious activism involved the promotion of politically connected corporations whose effect on the economy as

<sup>34</sup> For accounts that emphasize ease of adjustment, see Tony Killick, Ana Marr and Raman Gunatilaka, *Aid and the political economy of policy change* (London: Routledge, 1998); Dani Rodrik, ‘Where did all the growth go? External shocks, social conflict and growth collapse’, mimeo Harvard University, 1998. For accounts of welfare regimes (or their absence), see Stephan Haggard and Robert Kaufman, ‘The expansion of welfare commitments in Latin America and East Asia: 1950–1980’, mimeo, 2002.

<sup>35</sup> See esp. Richard Robison, ‘Politics and markets in Indonesia’s post-oil era’, in Rodan et al., *The political economy of South-East Asia*, pp. 29–62; Edmund Terence Gomez and Jomo Kwame Sundaram, *Malaysian political economy: politics, patronage and profits* (Cambridge: Cambridge University Press, 1999).

a whole was, in fact, ambiguous. The result was that by the early 1990s inequality was beginning to rise across the region for the first time since the 1960s.<sup>36</sup>

Of course, national patterns varied. In South-East Asia liberalization was partly a result of state capture by powerful domestic business groups. In Korea, in contrast, it reflected growing tensions between government and the *chaebol* (the Korean conglomerates at the heart of the developmental state project). For much of the 1980s, left-wing Koreans tried to press home the view that, although the developmental state had brought strong growth, it had rested on an authoritarian deal between the state and domestic conglomerates owned by a tiny minority of Koreans. The new democratic leaders tried to respond to this critique but were caught between two problematic options. One solution would be to try to regulate *chaebol* dominance in order to encourage greater economic competition; but this was difficult in the face of *chaebol* political power. The other was to hope that liberalized financial markets would inject competition on their own; but there was a considerable risk that liberalization would deprive the state of influence over the domestic banking system, which was its major means of controlling the *chaebol*. US bilateral pressure on Korea, leveraged by budget deficits in the early 1990s, ensured a partial triumph of liberal arguments in the early 1990s. With the benefit of hindsight this was a mistake, leading to very much the consequences that critics had predicted: growing monopolization of the economy by the *chaebol*, which were no longer subject to either state or market discipline.<sup>37</sup>

### Asia after the crisis

When crisis finally hit Asia in 1997, there was serious external pressure for change. The IMF response to the crisis was to promote a consolidation of earlier liberalization along with demands for regulations that would, it was assumed, undermine the privileged position of domestic business and inject a dose of market competition into regional economies, and thereby restart growth. Given that this was the post-Washington Consensus period rather than the neo-liberal high water of the 1980s, there was also emphasis on the need to reform domestic governance structures, reshape (rather than downsize) the state, and sweeten the pill of adjustment via some minimal social reforms. The state was, in other words, to play an active role in imposing competitive discipline on the domestic conglomerates, and greater transparency and an enhanced rule of law were to provide safeguards against corruption. Economic adjustment was, therefore, accompanied by the promotion of political reforms embodied, for example, in constitutional change in Thailand and Indonesia.<sup>38</sup>

<sup>36</sup> Lance Taylor, ed., *External liberalization in Asia, post-socialist Europe, and Brazil* (Oxford: Oxford University Press, 2006).

<sup>37</sup> On growing critiques of the *chaebol*, see Yeon-ho Lee, *The state, society and big business in Korea* (London: Routledge, 1997). On the politics of liberalization under Kim Young-sam, see Barry Gills and Dong-sook Gills, 'Globalization and strategic choice in South Korea: economic reform and labour', in Samuel Kim, ed., *Korea's globalization* (Cambridge: Cambridge University Press, 2000), pp. 29–53; Elizabeth Thurbon, 'Ideational consistency and institutional incapacity: why financial liberalization in Korea went horribly wrong', *New Political Economy* 8: 3, Sept. 2002, pp. 341–62.

<sup>38</sup> The literature here is vast. For views from opposite ends of the spectrum on causation, see Steven Radelet



The post-crisis political economy of Asia has largely been shaped by two competing reactions to this agenda. The first viewed IMF intervention as a US-backed attempt to eliminate the heterodox economic policies that had made Asia rich in the first place, with the aim of allowing foreign investors to buy up Asian assets at fire-sale prices. This view was, inevitably, popular with domestic big business and its allies, who tried to broaden its appeal by recourse to nationalist narratives that portrayed the growth of domestic conglomerates as central to broad-based economic growth and decades of rising living standards.<sup>39</sup> However, it also had the potential for wider appeal if voters could be persuaded that heterodox Asian capitalism had delivered growth, that a wholesale conversion to neo-liberalism would dent unemployment and that the problematic consequences of old models (corruption and authoritarianism) could be reined in.

The second, less well-reported, attitude built on longstanding domestic criticism of government–business relationships, along the lines of the Korean left-wing agenda referred to earlier. Here the developmental state system was seen as an elitist project of mutually reinforcing corporate and political power, deeply implicated in practices of inequality, political exclusion and growing corruption. In South-East Asia, particularly, domestic conglomerates could advance only weak claims to the status of champions of broad-based development, and the liberalization of the 1990s had further tarnished perceptions that they served the public interest. The hope was that ending state–business dominance would have positive distributional consequences. Economic catastrophe after years of prosperity had breached the Asian social contract in which political authoritarianism was accepted on the grounds that it provided stability and prosperity. Additionally, high-profile international statements all suggested that the root causes of crisis were already unpopular ‘crony’ relationships between government and big business,<sup>40</sup> providing intellectual reinforcement for the liberal-reformist point of view. The catch was that this view implied faith in the growth and job-creating results of liberal reform and/or in the ability to use democratic processes to create significantly redistributive tax and welfare policies.

This second reaction has meant that, despite some nationalist discontent, the Post-Washington consensus has led to less of an anti-American backlash in Asia than in Latin America. Asia simply has not had a history of failed neo-liberalism to react against—changes have been more gradual and partial than in Latin America.

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and Jeffrey Sachs ‘The East Asian financial crisis: diagnosis, remedies, prospects’, mimeo, Harvard University, 1998; S. Fischer, ‘In defence of the IMF: specialized tools for a specialized task’, *Foreign Affairs* 177: 4, July–Aug. 1998, pp. 103–6. For more details on the political economy of immediate responses to crisis, see Thirkell-White, *The IMF*; Stephan Haggard, *The political economy of the Asian financial crisis* (Washington DC: Institute for International Economics, 2000).

<sup>39</sup> This analysis was, of course, shared by a much broader range of observers within the region and beyond. See esp. Peter Gowan, *The global gamble: Washington’s Faustian bid for world dominance* (London: Verso, 1999); and, more convincingly, Robert Wade and Frank Veneroso, ‘The East Asian crash and the Wall Street–Treasury–IMF complex’, *New Left Review*, no. 228, March–April 1998, pp. 3–23.

<sup>40</sup> Views along these lines were publicly articulated in Korea by Kim Dae-jung: see Thirkell-White, *The IMF*, ch. 5. They remain common in the discourse of the Malaysian opposition party Keadilan, and even anti-globalization activists in Jakarta have been known to argue that the IMF was a ‘hero of *reformasi*’ (author interview, Jakarta, July 2006).

At the same time, the post-Washington consensus (unlike its predecessor in the Latin America of the 1980s) offered an *expansion* of welfare, as well as the promise of more liberal politics. This helps to explain the enthusiastic embrace of the new agenda by democratic governments across the region in the immediate aftermath of the crisis.

However, as time has gone by, reforms have looked less complete and secure than some may have expected.<sup>41</sup> In the first place, domestic enthusiasm for reform was always instrumental. It was primarily aimed at undermining the power of elites increasingly seen as authoritarian and corrupt. Few in the region saw liberalization as a good in itself. The expected consequence was resurgent, but more redistributive, growth. However, this has not happened: unemployment and underemployment have increased, and investment remains sluggish.<sup>42</sup> Second, the old model was by no means thoroughly discredited. Although dramatic, the crisis was relatively brief (except, to some extent, in Indonesia) and took place after years of sustained and fairly broad-based growth. Moreover, appeals to the importance of 'national' business still have resonance in domestic politics, especially in the context of weak growth.<sup>43</sup>

These two sources of growing resistance have different logics, but both are the source of political alliances which, in turn, contribute to rising political tensions and a diverse set of outcomes across the region. Popular interests are trying to find a model of democratic management that delivers more broadly based economic benefits, through either new models of growth or expanded welfare provision. Domestic business, on the other hand, needs to convince people that it can deliver those benefits in a way that is more equitable and less corrupt than in the past.

The persistence of the old Asian model of nationalist political economy looks most likely in Malaysia. There, the crisis was never very severe and an IMF programme was avoided, partly because of a stronger pre-crisis regulatory environment and partly because of capital controls. The principal risk is that current policy is neither sufficiently liberal nor coherently nationalist enough to restart growth, leading to greater resentment of continuing political authoritarianism.<sup>44</sup> In Korea, post-crisis politics is dominated by the tensions of transition. Kim-Dae jung, elected during the crisis, was a traditional Korean left-winger deeply hostile to the *chaebol* and keen to introduce a more liberal economic environment; he was

<sup>41</sup> The best collection is currently Jomo Kwame Sundaram, ed., *After the storm: crisis, recovery and sustaining development in four Asian economies* (Singapore: Institute for SouthEast Asian Studies, 2004).

<sup>42</sup> On reduced domestic and international investment in Asia, see IMF, 'Indonesia: selected issues', IMF Country Report 07/273, Aug. 2007, and IMF, 'Thailand: selected issues', IMF Country Report 07/271, July 2007, both available at <http://www.imf.org>, accessed 1 March 2008. For an argument that nationalist policies promoted domestic investment, see Yilmaz Akyuz, Ha-Joon Chang and Richard Kozul-Wright, 'New perspectives on East Asian development', *Journal of Development Studies* 34: 6, 1998, pp. 4–36.

<sup>43</sup> See esp. J Shin, 'South Korea: the Keynesian recovery and the costs of structural reform', in Jomo, *After the storm*; Richard Robison and Vedi Hadiz, *Reorganising power in Indonesia: the politics of oligarchy in an age of markets* (London: RoutledgeCurzon, 2004).

<sup>44</sup> The Malaysian government has reformed financial legislation and further liberalized the banking sector, but has also acquired control over large sections of the Malaysian stock market (through its 'sovereign wealth fund' Kazanah Bhd), which it hopes to use to promote competitiveness and national goals. See Ben Thirkell-White, 'Indonesia and Malaysia', in Justin Robertson, ed., *Power and politics after financial crisis: re-thinking foreign opportunism in emerging markets* (Basingstoke: Palgrave, 2008).

followed by Rho Moo-hyun, who promised a more redistributive tax-and-spend model. However, the latest elections, in 2007, were won by Lee Myung-bak on a platform of restarting growth through pro-business policy. He is clearly more pro-American than Rho in foreign policy terms; but he is also an ex-Hyundai executive with a predilection for government 'mega-projects', and a return to more interventionist economic management is likely.<sup>45</sup>

Indonesia and Thailand currently look far more troubled. The public rejection of the old Asian order has been most dramatic in Indonesia, where Suharto's New Order regime was most thoroughly discredited by the crisis. However, while the formal transformation of the Indonesian political economy is almost complete, informally, old corporate elites have been reasserting themselves. They have not been able to restart active state assistance, but they have sabotaged attempts to create a radical transition to free market economics and a regulatory state. Lack of judicial enforcement and bureaucratic weakness have limited the bite of reformist legislation and raised questions about the sanctity of contract and property rights, discouraging investment. Equally, democracy has yet to create strong accountability between citizens and the state. Weak statehood probably makes a return to nationalism unlikely, and the extent to which domestic elites were blamed for the crisis will prevent any anti-American backlash. But growing corruption, slow growth and rising unemployment, combined with dramatically increased opportunities for political participation, make the outlook decidedly risky in the medium term.<sup>46</sup>

In Thailand, meanwhile, popular discontent has been harnessed to an alliance with domestic big business, in a more direct reaction against IMF-mandated reforms. Thaksin Shinawatra's Thai Rak Thai (literally Thai love Thai) party developed an extraordinarily popular campaign platform involving direct grants to villages, expanded access to health and education, and rhetoric about the importance of local entrepreneurialism and the significance of small and medium-sized enterprises to growth. In fact, though, his primary support came from Thai big business. Once elected, Shinawatra eventually implemented a number of liberal reforms—but, crucially, they were delayed to ensure that recovering Thai business could take a cut in privatization processes. He also used his large electoral mandate to circumvent constitutional checks and balances, push through particular benefits for companies owned by his friends and family, stifle the press, persecute NGO opposition groups, and carry out human rights abuses. All this inflamed the Bangkok liberal intelligentsia, eventually provoking a short-term military

<sup>45</sup> On the death or otherwise of the Korean developmental state, cf. Ian Pirie, 'Better by design: Korea's neo-liberal economy', *Pacific Review* 18: 3, 2005, pp. 355–74, and Judith Cherry, 'Big deal or big disappointment? The continuing evolution of the South Korean developmental state', *Pacific Review* 18: 3, 2005, pp. 326–54, and Elizabeth Thurbon and Linda Weiss, 'Investing in openness: the evolution of FDI strategy in Korea and Taiwan', *New Political Economy* 11: 1, March 2006, pp. 1–14. On Rho's election campaign, see Hoon Juang, 'President Rho Moo-hyun and the new politics of South Korea', *Asia Society* 2003, [http://www.asiasociety.org/publications/update\\_korea2.html](http://www.asiasociety.org/publications/update_korea2.html), accessed 20 Jan. 2008. On Lee Myung-bak, see Ryu Jin, 'Economic policy to undergo U-turn', *Korea Times*, 6 Jan. 2008.

<sup>46</sup> For very different assessments of the new Indonesia, cf. Hal Hill and Takashi Shiraishi, 'Indonesia after the Asian crisis', *Asian Economic Policy Review* 2: 1 June 2007, pp. 123–41, and Robison and Hadiz, *Reorganising power in Indonesia*.

intervention. Although Thaksin remains in exile, his political proxies have since been returned to power by a small majority in the first elections since the coup.<sup>47</sup>

Overall, then, Asia could be said to have embraced, albeit tentatively, some aspects of the post-Washington consensus. A politically more inclusive agenda has encouraged some political support for liberal reform. But support for full-blown neo-liberalism is weak and diminishing. Asian governments operate reasonably open markets, even slightly more open ones than before the crisis. However, they have also repaid their credits to the IMF and accumulated extremely large reserves which enable them to resist attempts to meddle too much in the region's political growth strategies. This resistance is backed up by strong local conceptions of sovereignty, traditions of non-interference and some signs of resurgent nationalism. None of this represents a fundamental threat to US interests. But it does suggest that the forward march of US-sponsored liberalization has come to a virtual halt.

## **Conclusion**

With the benefit of hindsight, the apparent triumph of high neo-liberalism in the 1980s may actually have been less inevitable than it appeared at the time. Politically, the reforms were unpalatable over the long term and the economic benefit has been, at best, mixed. The post-Washington consensus agenda, with its greater emphasis on popular inclusion and political reform, in fact represents a tacit acknowledgement within Washington that neo-liberal economic policies are extremely difficult to sustain and legitimate at a domestic level. Interestingly, in Latin America, even that level of compromise has not been enough to prevent a backlash. In Asia, meanwhile, the success of neo-liberalism is still in the balance. Outcomes will depend on how sovereign decisions and US interests accommodate each other and find a compromise in a context of increased political freedom.

As we have seen, historically a complex array of material and ideological instruments allowed the United States to extend its influence across the states of Latin America and police its political economy closely. The picture was different in Asia. During the Cold War, nationalism was tolerated in regimes that were resolutely pro-capitalist. The United States did little to promote regional investment patterns but supported them indirectly by acting as an open market for exports. The absence of acute crisis in the 1980s meant that it was never asked to do more. It was only in the 1990s that concerns about American decline and a more assertive US foreign economic policy came together with financial crisis to threaten the Asian model. Even then, the task of dismantling the old model was made difficult by a changing intellectual environment, in which there is much less consensus about what 'good' development policy looks like, and by the model's previous long-term success (setting a high standard for claims that there is a better way). Latin

<sup>47</sup> See Kevin Hewison, 'The politics of neo-liberalism: class and capitalism in contemporary Thailand', South East Asian Research Centre working paper 45, March 2003; William Case, 'Democracy's quality and breakdown: new lessons from Thailand', SEARC working paper 83, Jan. 2007, both City University of Hong Kong. The election results were declared on 24 Dec. 2007.

America, on the other hand, has always been a more immediate destination for US investment, and its economic nationalism is undoubtedly more confrontational and more openly anti-American. Nevertheless, emergent experiments in alternative economic policies seem to have acted as only mild irritants to US interests, rather than posing severe material threats. One notable aspect of political change in both regions is that all countries, whether governed by regimes of the 'new left' or not, continue to accept the importance of foreign investment and are not intending to cut their links with the global economy, merely to renegotiate their form. What is taking place, then, may look dramatic against the backdrop of the liberal hubris of the 1990s; but it is hardly radical compared to, say, the politics of the New International Economic Order movement in the 1970s.

Nevertheless, the challenges to the Washington consensus in Latin America and Asia, however modest they may be judged, indicate an increasingly fractured intellectual agreement about what 'good' development policy is. Perhaps, therefore, it is inevitable that we will see more pragmatic, country-specific experimentation. There is no necessary reason to see this as a direct challenge to the United States; after all, it may well be more manageable, from Washington's perspective, than the politics of development in the years before 1982. This new developmentalism will test US tolerance—as debate in the Meltzer Commission showed, some clearly feel that even the post-Washington consensus is a step too far—but might make progress without provoking direct confrontation.<sup>48</sup> From the US side, doing so will mean stepping up the existing trend towards bilateral trade and investment deals. Equally, however, it may be that these concessions are greater than Washington will want to make. Particularly in Latin America, one could imagine US attempts to isolate or destabilize at least some domestic regimes. However, the more obvious the attempts to control change, the more likely the domestic backlash, particularly given the role of transnational and local civil society groups in supporting anti-neo-liberal policies across Latin America. In short, we are entering a scenario dominated by the need for caution, compromise and multilevel responses in Washington.

<sup>48</sup> The Meltzer Commission was a Republican dominated committee under Adam Meltzer, set up to review the way the international financial institutions operate, following the Asian crisis. The commission wanted the IMF to concentrate narrowly on macro-economic balance. For review, see David Viner and Christopher Gilbert, eds, *The IMF and its critics: reform of the global financial architecture* (Cambridge: Cambridge University Press, 2004).