

The Fallacy of Globalism and the Protection of National Economies

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The collapse of the Soviet Union has left the United States as the sole superpower today, with military resources greater than the combined forces of all of Western Europe, China, Japan, and Russia, capable of dispatching aircraft carriers to anywhere on the seven seas and of deploying troops to any land of the planet. In addition to holding sway over the political economies of a large number of states, the United States also exerts considerable influence through international finance institutions (IFIs) such as the International Monetary Fund (IMF) and the World Bank, and international regulatory bodies such as the World Trade Organization (WTO).

Under the rubric of the Washington consensus,¹ the IMF and the World Bank vigorously promote an overt free-market approach. The tenets of neoliberalism permeate the corridors and every corner of the IFIs. Their staffs happily indulge themselves in preaching the gospel according to theories of free markets, the strength and validity of which are attested to by the transformations of socio-economic structures within developing countries of the world. They invoke these transformations of internal socio-economic conditions as a testament to the catholic “correctness” of the Washington consensus ideology, but this analysis glosses over the reality that the power of the Washington consensus was created by the enormous material force of U.S. policy, the very force that caused these changes in the first place.

The combined effect of these conditions has engendered a unipolar and unidimensional worldview. The greatest irony of the collapse of the Soviet Union is that the United States’ financial policy is creating “a global command economy” through the uniform programs of the IFIs, which are used as an instrument of developed countries’ foreign policy. The IMF and the World Bank are laying down a global agenda for development in the name of “Global Principles” that underscore free trade, tighter budgets, high interest rates to attract foreign capital and to boost domestic savings, liberalized financial flows, deregulation of business, and privatization of state-owned

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1. The term “Washington consensus” was coined by John Williamson. John Williamson, *What Washington Means by Policy Reform*, in *LATIN AMERICAN ADJUSTMENT: HOW MUCH HAS HAPPENED?* 7, 7 (John Williamson ed., 1990). He used it as a short-hand expression for the purpose of describing reforms undertaken in Latin American countries in the 1980s, *id.* at 7-8, but the term has evolved over time to signify a set of neoliberal policy prescriptions. Moisé Naím, *Washington Consensus or Washington Confusion?*, *FOREIGN POL’Y*, Spring 2000, at 87; John Williamson, *The Washington Consensus Revisited*, in *ECONOMIC AND SOCIAL DEVELOPMENT INTO THE XXI CENTURY* 48, 48 (Louis Emmerij ed., 1997).

enterprises.² They have also introduced several problematic conceptual devices that underpin the Washington consensus, such as “a level playing field,”³ “the private sector as the engine of growth,”⁴ “the minimalist state,”⁵ and “ownership.”⁶

The notion of “a level playing field” was introduced with a view to opening markets for foreign business by mandating uniform rules of admission and uniform rules of the game. This conceptual device entirely ignores two essential conditions of the game: the quality of the ground on which the game is supposed to be played and the disparity of each player’s

2. The term “Global Principles” is a short-hand term of art used to characterize the World Bank’s so-called Global Initiatives spearheaded by its president, James D. Wolfensohn. See James D. Wolfensohn, *Foundations for a More Stable Global System, Remarks at the Symposium on Global Finance and Development* (Mar. 1, 1999), at <http://www.worldbank.org/html/exdr/extme/jdwsp030199.htm> (“A global framework, with global rules and standards in which we all have a part, is just as important for the security of an individual country as is the sum of functioning national parts to the security of the global whole.”); see also Global Dev. Network, *Related Global Initiatives*, at <http://www.gdnet.org/relatedglobal.htm> (last visited Apr. 5, 2001) (providing links to various Global Initiatives). The participation of the World Bank and the IMF “in the formulation of international standards, principles and best practices” is acknowledged in the World Bank/IMF Development Committee’s communiqué dated April 28, 1999. *Quoted in* WORLD BANK, PRINCIPLES AND GOOD PRACTICE IN SOCIAL POLICY: ISSUES AND AREAS FOR PUBLIC ACTION 12 (1999). Within the context of a discussion of General Principles and Issues of Implementation, the World Bank also speaks of “[g]lobal principles for social policy” that “should have as their goal the promotion of social development of all the world’s people—to increase their capacity to improve their lives and influence the decisions that affect them.” *Id.* at 4; see also *The Strategic Compact*, in WORLD BANK, ANNUAL REPORT 1997 at <http://www.worldbank.org/html/extpb/annrep97/overview.htm> (last visited Apr. 5, 2001) (enumerating the goals of various World Bank global fiscal strategies and partnerships). The comprehensive Development Framework, see *infra* note 6, is an integral component of the Global Principles.

3. *E.g.*, WORLD BANK, THE EAST ASIAN MIRACLE: ECONOMIC GROWTH AND PUBLIC POLICY (1993). The World Bank reviewed government interventions not consistent with “the dictum of establishing for the private sector a level playing field, a neutral incentives regime,” *id.* at 6, and analyzed why governments should interfere with “the level playing field created by the international market.” *Id.* at 293. The then-Chief Economist of the World Bank has also underscored that “[a] stable and effective financial system, which requires a regulatory framework that not only ensures safety and soundness, but also enhances competition, protects depositors, creates confidence that there is a ‘level playing field’ in securities markets by protecting investors from abuses, and identifies underserved groups within society.” Joseph Stiglitz, *Towards a New Paradigm for Development: Strategies, Policies, and Processes*, 1998 Prebisch Lecture at UNCTAD (Oct. 19, 1998), at <http://www.worldbank.org/html/extdr/extme/jssp101998.htm>.

4. *E.g.*, *Final Report on the Consultative Meetings on the Eighth General Replenishment of the Resources of the African Development Fund*, African Dev. Fund, 5th Consultative Meeting, at v, Doc. ADF-VIII/CM.5/99/16/FINAL (1999) (“There is an emerging consensus on the proper role of development assistance and institutions in addressing the development challenges, with the private sector functioning as the primary engine of growth.”).

5. *E.g.*, Joseph Stiglitz, *More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus*, 1998 WIDER Annual Lecture, Helsinki, Finland (Jan. 7, 1998), at <http://www.worldbank.org/html/extdr/extme/js-010798/wider.htm> (“The Washington consensus policies were based on a rejection of the state’s activist role and the promotion of a minimalist, noninterventionist state. The unspoken premise is that governments are worse than markets. Therefore the smaller the state the better the state.”)

6. *E.g.*, *Strengthening the International Financial Architecture: Report from G7 Finance Ministers to the Heads of State and Government* (July 8, 2000), at <http://www.mof.go.jp/english/iff/if019.htm> (“the Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Papers (PRSPs) should become the basis for programs that have *strong ownership by the recipient countries*”) (emphasis added); see also James D. Wolfensohn, *A Proposal for a Comprehensive Development Framework* (Jan. 21, 1999) (discussion draft) at <http://www.worldbank.org/cdf/cdf.pdf>. CDF considers “ownership” essential and prescribes that “[c]ountries must be in the driver’s seat and set the course,” *id.* at 9; however, the most important vehicle that countries are expected to drive is “an overarching framework” fashioned by the World Bank. *Id.* at 6.

strength. Indeed, all IFIs have tended to promote the private sector by removing barriers, such as tariffs, subsidies, restrictions on foreign investment, licenses, the movement of currencies, and exchange rates, and by establishing uniform practices in accounting and auditing standards. This agenda has primarily benefited developed countries' private sectors, allowing them to move in to do business in developing countries. Moreover, the proposition that "the private sector is the engine of growth" is not tenable unless the state creates an enabling environment in which the private sector can operate efficiently. It is primarily the government that sets policy and allocates national resources to achieve that policy. Thus, the principle of "the minimalist state" does not accurately reflect the functioning and historical development of any state. The reinvented notion of "ownership" has a curious twist, in that its focus is not so much upon who is the owner of an IFI-financed project. Instead, it implicitly ascribes the locus of responsibility and its corresponding liability to the government concerned, even though project preparation and financing are provided under the guidance of the IFIs. Hence, in times of financial crisis brought about by financial liberalization, for example, developing countries' governments must bear the burden of adjustment under IMF loans, while foreign speculative capital is effectively bailed out—ostensibly to restore "investor confidence"—at the expense of developing countries' taxpayers.

These conceptual devices have paved the way for IFIs to promote what is now referred to as "best practices"; that is, "practices" considered "best" by developed countries. IFIs have become both the arenas for adoption of policies promoted by developed countries and the administrators of these policies. Indeed, the globalism of the Washington consensus has produced a "uniformity of principles and practices" under the name of Global Principles. The application of the Global Principles is predicated upon the existence of a universal republic. Globalism is formed, as in the case of Adam Smith's theory, at the expense of national economies with their distinct nature and interests. Programs such as "the Global Development Network," "the Global Development Market Place," "the Global Knowledge Partnership," "the Global Development Learning Network," "the Global Development Gateway," "Global Principles for Insolvency Law Reform," and "Global Justice" ring hollow.⁷ This is the fallacy of globalism. As the nineteenth-century economist Friedrich List observed, "it is evident that as soon as the existence of nations with their distinct nature and interests is recognised, it becomes necessary to modify the economy of human society in accordance with these special interests . . ."⁸ List warned, "the result of general free trade would not be a universal republic, but, on the contrary, a universal subjection of the less advanced nations to the supremacy of the predominant

7. These programs are all part of the World Bank's "Global Initiatives." For basic information on these various Initiatives, see generally <http://www.developmentgateway.org>, <http://www.developmentmarketplace.org>, <http://www.gdnet.org>, <http://www.globalknowledge.org>, and <http://www.worldbank.org/gdln/aboutgdln.htm> (last visited Apr. 5, 2001). On global insolvency law reform, see, for example, World Bank, Global Insolvency Law Database, at <http://wbln0018.worldbank.org/legal/gild/entry.nsf/entry?readform> (last visited Apr. 5, 2001).

8. FRIEDRICH LIST, *THE NATIONAL SYSTEM OF POLITICAL ECONOMY* 122 (Sampson S. Lloyd trans., Augustus M. Kelley Publishers 1966) (1841).

manufacturing, commercial, and naval power”⁹ Globalism is thus the product of unilateral parochialism.

Free competition enables the strong to win the game. The uniform, monolithic set of principles contemplated under the Global Principles ignores the individual characteristics of developing countries. The Global Principles and Practices are for developed countries that now enjoy the fruits of development. Developing countries need a different perspective, because as late-comers, they face numerous handicaps such as non-competitive industries in infancy, a small domestic capital market, high domestic interest rates, a shortage of skilled labor, and a lack of advanced technologies. These shortcomings must be compensated for by the development of new institutional arrangements and practices. No doubt, free trade would benefit consumers, but it would also undermine the manufacturing capabilities of domestic industries.

The people of East Asia understand, as did Alexander Hamilton in his time, the importance of the present sacrifice of the individual's interest in the name of the creation of collective value—the future national economy. In the short term, protection is undoubtedly more costly than free competition. In the long run, however, a society's well-being and its overall wealth is determined not by what the society can buy, but by what it can make. For developing countries, the question is how to develop their own capabilities to produce goods and services saleable on the world market. Liberalization of domestic markets in favor of free trade and competition should take place in a phased manner, thereby allowing nations to cultivate new skills and know-how and to develop domestic capacity while nurturing newly acquired capability to grow stronger and more competitive. The opening of domestic markets should therefore be linked with the corresponding development of local capability.

No doubt, globalization is here to stay. Globalization does not, however, mean uniformity in practice on the basis of a monolithic global formula or framework. As each individual is unique, so is each country. Paradoxically, the more globalization progresses, the more opportunities for diversity will develop. The fundamental premise for such diversity is respect for the autonomy of the individual human being. Freedom to participate in social processes is the basic empirical foundation of pluralism and diversity.¹⁰ We must reject, as a matter of policy, blanket prescriptions of global application. Each country has a right to develop at its own pace to meet its own needs. Regional cooperation and groupings reflect initiatives of individual countries to safeguard their interests against the more powerful forces outside the region. This rejection of the convergence to globalism reflects an understanding that developed countries, in the words of List, “merely gained an advance over others in point of time.”¹¹ Each developing country should develop a strategy for economic development that will meet its own circumstances and that at the same time will be compatible with the process of globalization.

9. *Id.* at 126.

10. MYRES S. MCDUGAL ET AL., HUMAN RIGHTS AND WORLD PUBLIC ORDER: THE BASIC POLICIES OF AN INTERNATIONAL LAW OF HUMAN DIGNITY 7 (1980).

11. LIST, *supra* note 8, at 127.