

THE NEW INTERNATIONAL FINANCIAL ARCHITECTURE: IMPOSED LEADERSHIP AND 'EMERGING MARKETS'

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The Asian bust of 1997 caught the international financial community by surprise. It also opened the floodgates to a torrent of criticism about the ability of financial liberalization to create sustained prosperity. The United States government launched an impassioned defence of capital mobility by blaming the 'emerging markets'. In the larger framework of the G7 (Group of Seven) the US sought to strengthen the existing rules of the game through the creation of the so-called New International Financial Architecture (NIFA) at the Cologne summit in 1999. The chief significance of the NIFA lies in its attempt to incorporate what are called 'systematically important' emerging market economies into a carefully-structured international policy-making environment, so as to ensure that they adopt the rules and standards of the West, by integrating these countries more closely with the International Monetary Fund (IMF) and the World Bank.

Yet securing their compliance is not entirely easy, given the waning level of public support for the neoliberal project in the wake of ever-widening income inequality and increased poverty rates.¹ The political and social effects of the vicious cycle of crisis and bailout over the past two decades have made the principle of free capital mobility more difficult to sustain and caused a crisis of legitimation among those who pay the costs whenever short-term debt falls due and asset price bubbles implode. The production by the IMF and World Bank of numerous 'second generation' policies aimed at addressing issues of social justice and anti-poverty may be viewed as an attempt to address the waning legitimacy of the existing neoliberal agenda, and more fundamentally, of American

interference in other countries' politics and economies. Indeed, governments of emerging market economies have begun to make explicit their discontent with the ideas that underpin the Washington consensus. Some have gone so far as to call for a new development agenda and increased policy autonomy to assist them in overcoming what the Executive Secretary of the UN Economic Commission for Latin America and the Caribbean (ECLAC), José Antonio Ocampo, refers to as a 'crisis of the state'.²

Alongside this general dissatisfaction with the existing international financial system in 'emerging markets', doubts about the logic of the Washington consensus are also evident in the United States. While to a certain extent due to political squabbles, the refusal of the US Congress to co-operate with the Clinton Administration in a \$20 billion bailout for Mexico in 1994 — not to mention its baulking at a request to contribute \$18 billion to the IMF for the Asian crisis in 1998 — signalled the growing unwillingness of the American public to clean up the mess made by corrupt governments and greedy investors in emerging markets. Crucially, this agitation equally threatens what Peter Gowan aptly calls the 'Dollar-Wall Street Regime' (DWSR), as it makes it more difficult for the United States to reap the economic benefits of the Structural Adjustment Policies (SAPs) imposed on 'emergent markets', and to respond rapidly to bail out American investors.³

In view of the NIFA's potential for generalizing and enforcing the rules governing the international financial system, and especially to redefine what constitutes a *successful* 'emerging market', it is important to investigate this project critically. Why was new architecture required? Whose building is it? What shape is it taking? This essay argues that the NIFA constitutes a transnational class-based strategy to reproduce the power of financial capital in the world economy and, in effect, the structural power of the United States. More specifically, the NIFA may be seen as a novel attempt to refurbish the political and ideological elements of the existing international financial architecture — the so-called Washington consensus — by way of what I call 'imposed leadership'.

The main elements of the NIFA are outlined below, in section five. First, however, it is necessary to outline the key structural contradiction upon which imposed leadership rests. As the scope of the DWSR expands, the conditions for continued accumulation in the global South weaken, and this in turn threatens the viability of the DWSR. More specifically, since the expansion of the DWSR depends on global financial liberalization, there has been a continual disarticulation between esoteric financial instruments and the real economy. This leads both to greater volatility in the international financial system and a more and more interconnected and interdependent world economy. The latter condition implies, amongst other things, the ability of crises to spread more rapidly. Yet for the DWSR to continue to grow there must be enough stability in the system to guarantee the continuation of free capital mobility across national borders. On the other hand, as the emerging market countries are forced to pry open their capital accounts as well as their current accounts, distribution tensions grow. The need

to address the resulting 'crisis of the state' has produced the demand for increased policy autonomy in the South, which could easily lead to departures from the rules and policies needed to guarantee the continued expansion of the DWSR and the power of global finance.

1. CONTESTING THE CONSENSUS

The Asian crisis shook the foundations upon which neoclassical hegemony rested. Despite the fact that these economies were revered as 'growth tigers', won high praise from the International Financial Institutions (IFIs) up to the year of the devaluation of the Thai baht in 1997 and possessed sound fundamentals, investors were badly burnt. Those associated with the Washington consensus were quick to blame 'crony capitalism' for the debacle, as opposed to the reckless and excessively herd-like behaviour of electronic speculators, and the IMF 'made reforms of corporate governance and related institutions a condition for its bail-outs in the region'.⁴

There is far from a consensus on this issue, however. High-profile US policy-makers and economic pundits, such as the former Federal Reserve Chairman, Paul Volcker, and the former Chief Economist of the World Bank, Joseph Stiglitz, have begun to question not only the wealth-creating power of free capital mobility but also whether the structure of the global financial system is sufficiently coherent for continued capital accumulation. In the words of the celebrated financier, George Soros,

[w]hat makes this crisis so politically unsettling and so dangerous for the global capitalist system is that the system itself is its main cause ... the origin of this crisis is to be found in the mechanism that defines the essence of a globalized capitalist system: the free, competitive capital markets that keep private capital moving unceasingly around the globe in a search for the highest profits and, supposedly, the most efficient allocation of the world's investment and savings.⁵

Events in the so-called IMF-3 (South Korea, Indonesia and Thailand) made it painfully clear that the underlying tenets of the Washington consensus were more than faulty. For instance, liberalized financial markets will *not* 'consistently price capital assets correctly in line with future supply and demand trends', and it is not true that 'the correct asset pricing of liberated capital markets will, in turn, provide a continually reliable guide to saving and investment decisions ... and to the efficient allocation of their economic resources'.⁶ Alexandre Lamfalussy, the former General Manager of the Bank for International Settlements (BIS), shares this view, writing that the exuberant behaviour of lenders and investors from the industrialized world played a major role in spurring on the past several crises in the emerging markets.⁷ Other 'organic intellectuals' of capital tend to agree. The MIT economist, Paul Krugman, for example, has argued that 'most economists today believe foreign exchange markets behave more like the unstable and irrational asset markets described by Keynes than the efficient markets described by

modern finance theory'.⁸ Jagdish Bhagwati, an eminent defender of free trade, nonetheless accepts that the dominance of short-term, speculative capital flows is not productive, but is characterized by panics and manias which will continue to be 'a source of considerable economic difficulty'.⁹

The significance of these debates is that they have generated a renewed interest in capital controls as a necessary mechanism to reduce market volatility by seeking to curb 'hot money'. One popular way of achieving this is by imposing a tax on short-term inflows, such as the Tobin tax. The tax, ranging anywhere from 0.1 to 0.5 percent, would be applied to short-term capital flows. It is estimated that it would enhance the efficacy of macroeconomic policy whilst encouraging longer-term investment and raising some tax as a by-product.¹⁰ But to be effective it would need to be implemented both uniformly and universally, and in conjunction with other reforms to deter speculation, such as domestic financial transaction taxes, and, more fundamentally, within a new international system of stable relationships between major currencies, or what some have called a new Bretton Woods. This solution would thus drive a stake through the heart of Washington consensus, for a new Bretton Woods would necessitate an interstate system based on major political and economic compromises, such as re-pegging the value of the dollar as well as limiting the amount of hot money that was allowed to flow out of the United States.

Those opposed to the implementation of any general controls have argued that the Tobin tax is unfeasible due to technical and administrative barriers. Yet as Tobin himself has pointed out,

while the implementation of the tax may appear complex, it is not any more complicated, probably much less so, than the detailed provisions of many existing taxes ... Indeed if the standards of what is feasible employed [by opponents of the tax] had been used before imposing income tax or VAT they would never have been introduced! The dominant feature in the introduction of new taxation has always been the political will rather than administrative feasibility.¹¹

As Benjamin J. Cohen notes, of all the possible reasons why governments may hesitate to implement capital controls, the political opposition of the United States appears to be the most decisive.¹² Despite the fact that the burden of proof has shifted from those advocating capital controls to those in favour of continued capital mobility, this debate has not received much attention. But it has not been ignored. The transnational bourgeoisie and the caretakers of the global economy have become painfully aware of the concerns raised by capital's own organic intellectuals, as well as of the declining support for global capitalism in the South.

2. THE ANATOMY OF AMERICAN LEADERSHIP

In contrast to the era of the Bretton Woods system (1944-71), the current period is marked by a free floating exchange rate system in which states use their power over monetary policy formation to engage in beggar-thy-neighbour tactics

and currency devaluations, so as to attract financial inflows. Also unlike the Bretton Woods system, the present one is characterized by a de-linking of the overriding concern for continued economic stability at the international level from national prerogatives. How do we make sense of the role of the United States in this context? More specifically, how does the DWSR reproduce itself in a multilateral interstate system that promotes, and, in turn, feeds off growing competition between other nation states? Giovanni Arrighi's notion of 'forced leadership' is useful in beginning to conceptualize the changing nature of US leadership:

A dominant state exercises a hegemonic function if it leads the system of states in a desired direction and, in doing so, is perceived as pursuing a general interest. It is this kind of leadership that makes the dominant state hegemonic. But a dominant state may lead also in the sense that it draws other states onto its own path of development. Borrowing an expression from Joseph Schumpeter (1963: 89), this second kind of leadership can be designated as 'leadership against one's own will' because, over time, it enhances competition for power rather than the power of the hegemon.¹³

While Arrighi's notion is helpful in drawing a distinction between hegemonic and non-hegemonic leadership, the term 'forced leadership' presents two problems for the analysis at hand. First, the argument being pursued here is not about the United States seeking to establish leadership in terms of regional or coalitional hegemony; but about a highly contradictory and complex form of world dominance by capital. Second, whereas Arrighi's notion of 'forced leadership' seems to imply that American headship is itself forced, the focus here is on the followers who are forced. Put differently, the crisis of American hegemony involves forcing other states to follow suit. As such, *imposed leadership* seems more aptly to capture the nature of the DWSR as a moment of American leadership. The DWSR is largely reproduced and regulated through coercion rather than consensual arrangements. Yet this coercion does not involve brute force, but operates through less visible and highly complex networks within the transnational bourgeoisie and political elites.¹⁴ In the management of both the global economy and national economies, for example, the coercion we are talking about has taken the form of a shift of the *locus* of decision-making to forums that are independent of public opinion and democratic accountability.

In what follows I will consider two dimensions of this kind of coercion: (1) *core-alliance coercion*, and (2) *core-periphery coercion*. Both interpretations draw on Antonio Gramsci's understanding of hegemony. *Core-alliance coercion* involves capitalists in the core — especially the US — building an alliance with other fractions of the dominant class; in particular, it refers to the US state constructing institutions that incorporate other powerful industrialized countries (the G7, the OECD) and global finance. *Core-peripheral coercion* entails the relationship between the US state and those of the 'emerging market economies' (in what follows, this relationship will be examined through the evolution of the 'Washington consensus').

Core-alliance coercion is at work in the networks of transnational capital and political elites who have been the key players in defining the international financial regulation (or lack thereof) developed under the DWSR. Since the fall of Bretton Woods various international financial regulatory institutions have been established: the G10 Central Bank Governors, with their Basel Committee on Banking Regulations and Supervisory Practices, formed in 1975; the globally oriented International Organization of Securities Commissions, formed in 1984; and the International Association of Insurance Supervisors (IAIS), formed in 1994. Alongside these regulatory bodies, the Bank for International Settlements and the G10's Eurocurrency Standing Committee produce information on and analysis of global financial markets. Both these forms of transnational political authority emerged as a response to the need of financial capital for a regulatory regime in an interstate system characterized by increasing forms of competition for, and dependency on, private, short-term financial inflows. Correspondingly, both kinds of institution are closed policy communities 'wherein an elite group works out the management of its own vital interests without wider public involvement'.¹⁵ As we shall see, it is precisely the power of these highly clandestine global management webs and linkages that the NIFA is attempting to strengthen through tighter communicative lines and increased co-operation.

Core-periphery coercion is embodied in the so-called 'Washington consensus'.¹⁶ This was an important feature of the DWSR, not only because it expanded markets, but also because it assisted in defining and universalizing the norms and values of global financial capital, which in turn strengthened the position of the United States in the global economy. The consensus orthodoxy is based on the hypotheses of efficient markets and rational expectations; it assumes that progress will be brought about via free trade, free capital mobility and non-interventionist states. It sees globalization as an inevitable and natural progression and holds that governments and societies must embrace it if they wish to share in increased prosperity. These help to reproduce the DWSR by legitimating free capital mobility and free trade as conditions necessary to the market, while drawing attention away from the active role states are playing in ensuring that these conditions are met and reproduced.¹⁷

This orthodoxy was primarily transmitted through the IMF's Structural Adjustment Programs (SAPs), which were tenaciously pursued by the IMF and the World Bank in the global South after the debt crisis of 1982. SAPs locked Latin American, Asian and African economies into an open world market economy, guaranteeing freedom of entry and exit for mobile capital across the globe. Countries that were willing to play the game by Washington's rules were rewarded with generous financial assistance and other forms of support.¹⁸

The consensus should not be conceived in deterministic terms, however; it was not just a blunt policy and ideological package that the United States forced onto the governments of the global South. Although the consensus clearly supported the DWSR, it also, albeit unevenly, benefited the political elites and bourgeoisies in emerging market economies, who were restructuring their rela-

tions of production in order to overcome declining profit levels; 'it was not the Washington consensus idea that taught people to transform social relations; it was the material transformations of social relations which produced the power of the Washington consensus idea'.¹⁹ For this reason, contradictions in the DWSR fundamentally affect changes in the Washington consensus, which, in turn, help us understand the nature of the NIFA.

3. THE CONTRADICTIONS OF IMPOSED LEADERSHIP

How should we understand the internal relations of the DWSR? I suggest that the relationship between the United States government and global finance is symbiotic yet constraining. It is symbiotic because as international financial markets grow in size and power, so, too, does the US economy. Because of its low level of domestic savings, the US is dependent on a constant inflow of funds from abroad, and the market in US government bonds is the biggest financial market in the world.²⁰ The mutually reinforcing elements of global finance's insatiable greed and Washington's obsession with neoliberal practices to maintain its structural power in the world economy resulted in a constant thrust toward financial liberalization. Indeed, prior to the Asian crash, the Interim Committee of the IMF was attempting to revise the Fund's charter so as to impose a legal obligation on its members to open their capital accounts.²¹ As Benjamin J. Cohen rightly observes, this was the high-water mark of the attempt to consecrate 'free market mobility as a universal norm'.²²

It is important to note that the DWSR thrives not only in periods of systemic stability, but also during times of instability. As Gowan notes, it feeds off crises in the following way. First, funds flee towards the safe haven of Wall Street. Second, SAPs encourage the export-oriented industrialization so that countries can pay off their debt; exports into the dollar zone further strengthen the dollar's centrality. Third, the risks faced by US financial operators are widely covered by the IMF, enabling them to return to international activity more aggressively than ever. Fourth, the weakening of states in the South strengthens the bargaining power of the Wall Street credit institutions in determining the form of future financing. Creditors are enabled to turn to forms that are safer, such as securitized debt and short-term rather than long-term loans.²³

This has had two important consequences for the DWSR. First, it has increased the dependency of emerging market economies on short-term flows as their primary source of credit. Back in 1981, for example, bank loans made up 77 per cent of the foreign investment in such emerging markets as Mexico, Brazil, Chile, Argentina and Sri Lanka. By 1993, 74 per cent of private foreign investment in these same countries came from mutual funds, hedge funds, and pension funds.²⁴

Second, this move has led to the concentration of power in the hands of a smaller and smaller number of institutional investors, so that decisions relating to capital allocation have in effect become more and more centralized.

This apparently win-win situation for the DWSR is not without its problems, however. A major limitation worth examining here concerns the global South.

Given the growing interconnectedness brought about by the DWSR, its viability has become increasingly dependent on the health and stability of financial markets regardless of their location. As the former Secretary of the Treasury department, Robert Rubin, stated in reaction to Indonesia's economic woes in 1997, '[f]inancial stability around the world is critical to the national security and economic interest of the United States'.²⁵ With each debacle in the 'emerging markets', the neoclassical premises upon which the Washington consensus rests — especially the equation between free capital mobility and sustained prosperity — become harder to legitimate. Susan Strange noted this contradiction almost fifteen years ago when she remarked that

the sorry state of the financial system is undoubtedly aggravating the difficulties in the path of economic development for poor countries while conversely the difficulties of the deeply indebted developing countries, so long as they persist, will aggravate the instability of the banking system.²⁶

As Ilene Grabel points out, the predominant type of inflows to the South — i.e. short-term and speculative in nature — have two negative and mutually reinforcing effects on governments in the South. First, they impose constraints on policy autonomy. Eager to ensure a steady inflow of credit, states in the South have been keen to pursue the policies laid down by the IMF, whose seal of approval is the ultimate sign of creditworthiness for the financial markets. Second, these inflows lead to increased vulnerability to financial volatility and crisis.²⁷ To earn hard currency via exports, these countries need to keep their own currencies low, but they also require capital inflows to finance state expenditures, which push the value of their currencies upwards. Take for example the strength of the Mexican peso, which recently hit its highest levels since mid-1998, thereby weakening its export industry. Unsurprisingly, in view of the new interconnectedness of the global economy, one of the main reasons for the peso's revaluation is that Mexico has been a haven for short-term capital fleeing problems in Argentina and Brazil.²⁸

Given their high dependence on exports, a currency revaluation can be, and has proven, fatal for an emerging market economy. In addition, high interest rates choke their heavily indebted private sectors and aggravate their already high levels of poverty. These policy constraints pose a threat both to the emerging market economies and the DWSR. Viewed together, these constraints appear as political expressions of the underlying contradictions of the capital relation in these countries. They place an extremely heavy burden on their governments, which have to maintain the political and social conditions for continued capital accumulation by trying to meet the constantly increasing demands of both the private sector and society at large. What is more, 'imposed leadership' demands that they overcome these policy constraints in such a way as to continue to support free capital mobility. To protect themselves from this 'trilemma' the governments of emerging markets call for increased policy autonomy in the management of their capital accounts and in the determination of their exchange rates.²⁹ Both responses

clearly run contrary to the interests of the DWSR. How has Washington responded? The next section focuses on how the NIFA attempts to contribute to the management of these contradictions.

4. THE NIFA: A PROCRUSTEAN BED FOR THE EMERGING MARKETS?

In response to various issues relating to the financial crisis of the emerging markets in the late 1990s the United States, acting through the esoteric community of the G7, unilaterally pushed through an agenda that would officially link 'systematically important' emerging markets with the IMF and the World Bank. The objectives of this project were clearly mapped out by the primary directive of the G7 Summit meeting in Cologne: to integrate emerging market economies more fully and flexibly into the global financial system by getting the IMF and its member states to increase their 'transparency' by publishing economic data, especially on short-term indebtedness and the state of their foreign exchange reserves. The G7 also 'urged the IMF to co-ordinate surveillance of the degree to which countries comply with international standards and codes of conduct. In addition, the G7 demands greater disclosure of the degree to which private sector financial institutions are exposed to hedge funds and other highly leveraged institutions.'³⁰ After hearing provisional reports from various ad hoc committees — whose membership was selected under the watchful eye of the US — the G7 leaders created the G20, or Group of 20, in Washington, D.C. on September 25, 1999. Unsurprisingly, the G20's membership structure reveals an important tendency in regard to the two types of coercion involved in imposed leadership.

The G20 includes the G7/G8, representatives from the European Union, the IMF, the Fund's new International Monetary and Financial Committee (IMFC) and the World Bank, as well as the Bank's Development Committee, and the following 'systematically important' emerging market countries: Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea, and Turkey. Taken together the constitution of the G20 represents a new attempt at *core-periphery coercion* by inviting these countries into the highly exclusive G7/G8, or more bluntly, coopting them into the rules and standards of the *core alliance* by involving them in official, and thus more tightly integrated, relations with the IMF and World Bank. This has never been attempted before. The mission of this esoteric community of IFIs, emerging markets and core states is to fulfil the primary objectives listed at the Cologne Summit.³¹

Through its annual meetings, the G20 seeks to promote consistency and coherence in the various efforts aimed at reforming and strengthening the international financial system as defined by the IMF and World Bank.³²

As with the G7, however, and in the interests of a similar wish for low visibility, the G20 does not have a permanent secretariat but is 'based' in the country of its chairperson, who in mid-2001 was the Canadian Minister of Finance, Paul Martin.

Again following the imposed leadership of the United States, the G7 finance ministers also created the Financial Stability Forum (FSF, or Forum). The Forum

is a political body that reports to and is supervised jointly by the G7 leaders. Unlike the G20, however, the FSF is a type of *core-alliance coercion*. Its membership is confined to a total of forty members from G7 countries. The FSF, which was first convened in April 1999, was established to promote international financial stability through information exchange and international cooperation in financial supervision and surveillance. In its own words, '[t]he *Forum* brings together on a regular basis national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.'³³

The FSF seeks to co-ordinate the efforts of these various bodies in order to promote international financial stability, improve the functioning of markets, and reduce systemic risk. Crucially, the initial Chairman of the FSF was drawn not from a 'strategically important' emerging market economy but was the General Manager of the BIS. Moreover, the Forum is also housed in the BIS in Basel, Switzerland.

As stated on its website, the key objectives of the FSF are: (1) to evaluate the vulnerabilities in the international financial system; (2) to identify and oversee action needed to address these vulnerabilities; and (3) to improve co-ordination and information exchange among the various authorities responsible for financial stability. The FSF meets twice a year, or as many times as needed to carry out its objectives. Some important developments that have emerged from these meetings have been the establishment of three working groups to extensively assess and recommend policy actions regarding: (a) highly-leveraged institutions; (b) capital flows; and, (c) offshore financial centres. Together with the International Association of Insurance Supervisors (IAIS), one of the FSF's recent accomplishments was to put together and disseminate a 'Compendium of Standards'. The Compendium establishes a common reference for the various standards and codes of good practice that are internationally accepted as relevant to sound, stable, and well-functioning financial systems. Furthermore, the FSF has approved a Financial Supervision Training Directory, which was created jointly by the managers of global capitalism, namely the IMF, the World Bank, and the BIS.

The above sketch of the G20 and the FSF sheds some light on whose building the NIFA actually is. The key role played by the United States in initiating the NIFA, and the fact that it is aimed at strengthening, as opposed to transforming, the existing power structures in the world economy, makes it clear that the edifice is an annex of the US state. This becomes particularly evident in light of the importance attached to linking the 'systematically important' emerging markets more closely to the IMF and World Bank. It is common knowledge that the US is disproportionately represented in the IMF and World Bank; with about 18 per cent of the Fund's quotas, the United States is able to veto any decision by this institution. Nevertheless, it should be emphasized that the interests served are also those of the *core-alliance* and the transnational bourgeoisie as a whole, all of whom benefit from this strategy to address the key structural contradiction inherent in the DWSR.

The NIFA's ideological impact is as significant as its practical structures. It reinforces the commitment of governments in emerging market economies to continue to adhere to the tenets of free trade and capital mobility, in three overlapping ways. First, it reinforces the view that increased volatility in the international financial system is due to home-grown policy-errors in emerging markets — not so much those of profligate governments, which have been largely 'corrected' by SAPs, but those resulting from bad structures of corporate governance (relatedly, this presupposes that the regulatory structures of the advanced industrialized countries, especially those of the United States, do not need reform). Second, it shifts the blame for the crises onto the emerging markets and absolves the international financial markets, which thus need not be subject to reform. Third, it induces the governments of emerging market countries to endorse the status quo by means of inclusionary politics. As the G7 made clear during the Cologne summit, the key objective of this interstate initiative was to integrate emerging market economies more fully and flexibly into the DWSR.³⁴

This move is not an attempt to shift the balance of power between the *core* and *periphery* but to strengthen the existing system through collective surveillance. The existing hierarchy of power will also be reflected in the structure of the G20 and the FSF. Yet as Geoffrey Underhill notes, these closed and highly technical transnational communities only provide *ad hoc* and patchy forms of regulation and supervision of financial markets. This lackadaisical governance plays a major role in facilitating the growth of both capital mobility, and, in turn, volatility associated with highly leveraged institutions such as hedge funds.

Drawing other states into the path of the consensus: imposed leadership

The NIFA is an attempt to strike a balance between financial deregulation and stability by encouraging governments of emerging markets to adopt only 'prudent' policies to restrain the inflow of speculative capital and to encourage more productive, long-term capital formation. Top officials from the IFIs have argued that certain limited capital controls (as opposed to universal controls, such as the Tobin tax) in emerging markets are acceptable as temporary, second-best options — that is, next to the first-best option of complete liberalization, which allows the magical self-corrective forces of the market to do their trick through open capital accounts.³⁵ It must be stressed, however, that their position is not a big departure from the orthodoxy of the Washington consensus. As John Williamson notes, convention has always held that to ensure stability during the reform process, policymakers should concentrate on liberalizing other parts of the economy first, before opening the capital account.³⁶ In this spirit limited capital controls are also acceptable as temporary policy instruments to achieve a breathing space for corrective action — which, of course, involves the implementation of neoliberal reforms. Stanley Fischer, the IMF's deputy director, summarized this view when he said that the Fund 'is prodding countries toward the importance of pursuing sound macro-economic policies ... and phasing capital account liberalisation appropriately — which means retaining some capital controls in the transition is virtually axiomatic now.'³⁷ Thus emerging markets

should employ 'certain' types of controls so that they may undertake the necessary reforms — the adoption of First World financial and banking structures — to achieve the end goal of full financial liberalization.

Not all limited capital controls are acceptable, however. Fourteen emerging market economies have employed a variety of capital controls over the past decade, but Washington has only endorsed the Chilean capital controls of 1991–98 (the unremunerated reserve requirement or URR). The URR attempted to limit the free outflow of portfolio investment by requiring all non-equity foreign capital inflows to buy a one-year, non-interest-bearing deposit, in effect charging a fee to anyone taking funds out of the country less than a year after moving them in.³⁸ When viewed in light of the Washington consensus, however, the reasons underlying this endorsement are not far to seek: Chile's fastidious adherence to the principles of neoliberalism, since General Pinochet so inhumanely introduced this policy and ideology in 1973, and especially the fact that apart from these controls the Chilean government had fully liberalized capital outflows. Apart from this, spokespeople for the international financial markets (including George Soros) as well as the US government have condemned states that curtail free capital mobility. In stark contrast to the Chilean endorsement, the IMF passed a hostile judgement on the much shorter-lived but more far-reaching Malaysian controls on outflows (1998–99) as clearly abandoning the liberalization of capital accounts.³⁹ Although the jury is still out regarding the effectiveness of both types of controls, the US remains vehemently opposed to the Malaysian controls.⁴⁰ Despite the fact that Malaysia modelled its controls on China's, it was not only exposed to disciplinary action by both the IMF and capital markets (capital flight and investment strikes) but was also denied entry into the 'elite' club of the G20, on the ostensible grounds that 'some among the G7 felt that Thailand, on the size of its economy and the absence of currency controls, [was] better suited.' Significantly enough, given China's geopolitical importance in the global political economy, it was admitted to membership of the G20 in spite of its use of the controls for which Malaysia was excluded.

There are at least three overlapping reasons — all of which can be traced to the interests of the DWSR — for the US rejection of the Malaysian currency controls. First, controls on capital outflows restrict the liquidity needed to nourish Wall Street and Main Street. This is particularly compelling in light of the fact that the Asian region has the highest saving rates in the world.⁴¹ Second, the general opposition of the United States to restricting short-term capital flows, and its corresponding vilification of the 'Asian model' as 'crony capitalism', arise logically enough from the fact that these controls do pose an ideological threat to the logic of financial liberalization. Neoliberals cannot deny that countries such as China and Taiwan, and later Hong Kong, which closed their economies to these volatile flows, escaped the direct impact of the Asian crisis in large part because their currencies were non-convertible, preventing both inflows and outflows of hot money yet *not* preventing foreign direct investment.⁴² The Malaysian currency controls were opposed by the United States because they reflected a

larger historical tradition in the region to rely on a form of state intervention that runs directly against the neoclassical spirit of the Washington consensus, namely the 'developmental state'. John Zysman defines developmental states as non-Anglo-Saxon state regulations, strong-state technocratic dirigisme, and corporatist structures, like Japan's.⁴³ This conception of development does not see state economic intervention as an unproductive and at best necessary evil. More importantly, the developmental state is closely associated with specific practices that run contrary to the NIFA project of implementing 'good corporate governance' (i.e., a separation between management and ownership) and transparency (i.e., public availability of information) — policies aimed at destroying the exclusive family-based capitalist business networks common in the region, the so-called 'bamboo networks' and 'pyramids' which are effectively closed to foreign penetration.⁴⁴ Because this type of state intervention and accumulation regime has been highly successful in the past, its renewed attractiveness to these governments as a viable alternative to the Washington consensus — particularly in light of the present economic downturn in the region — poses a powerful threat to Washington's bid to consecrate global capital mobility.

5. CONCLUSION: THE CONTRADICTION OF IMPOSED LEADERSHIP

The NIFA, a project of the caretakers of the global economy to refurbish and fortify the political and ideological scaffolding of the DWSR, reveals an overriding concern to address some of the more salient contradictions involved in free capital mobility. Nonetheless, far from smoothing over these contradictions, imposed leadership has led to new ones. Although the power of the DWSR and global finance has been reproduced in the process of guaranteeing the continuation of global capital accumulation, the process has served not only to intensify the competition for power (as opposed to the establishment of a new era of capital accumulation — a new Golden Age of growth) but also to aggravate uneven development, manifested in increasing inequality between the core and periphery, and between rich and poor in the global South. Moreover additional obstacles have been placed in the path of governments of the emerging markets seeking both to regulate their economies in ways compatible with the expansion and reproduction of the DWSR and to compete for FDI. As a result, imposed leadership will more than likely beget yet more coercion.

There is also the problem that 'peripheral' political elites woo foreign capital by making significant concessions to global players. Governments have to address and subdue the escalating social conflicts to which these concessions give rise in ways that will not lead to capital flight or investment strikes — but, under the NIFA/DWSR rules, with one hand tied behind their backs. Yet governments must also depoliticize these struggles in order to maintain their own legitimacy. Take for example the policy contradiction in which the Mexican government was caught in 2001. The Fox administration was being pressured by Standard and Poor, a major credit-rating agency and spokesperson for global finance capital, to

undertake a tax reform that would lower borrowing costs for companies and governments alike. The payback for this concession would be an award of investment-grade status.⁴⁵

It was also, however, under pressure to make concessions to the growing numbers of Mexicans who found themselves below the poverty line, as well as from the general discontent of voters with the neoliberal policies of the past two decades. To deal with these pressures Vicente Fox needed the revenue from planned tax *increases* to pay for, *inter alia*, anti-poverty programmes, social programmes, and education.

To put it more generally, far from capital mobility disciplining the governments of 'emerging markets' to adhere to the rules of the West, its inherent contradictions have touched off a general 'crisis of the state' for many governments of the global South, especially those involved in the G20. This crisis has enormous consequences for the ability of these states to adhere to the dictates of imposed leadership. To gain more elbow-room for policy formation these governments have predictably turned to populist politics. More fundamentally still, their attempts to deal with the key structural contradiction between the DWSR and the global South appear to be moving them in the direction of a new 'double movement', particularly in the two regions most vulnerable to a downturn in demand in the US, namely Latin America and East Asia. This is the larger significance of the exclusion of Malaysia from the G20; it was not merely intended to discipline an 'anti-Washington consensus' rogue state, but rather to serve as a general deterrent to a regional movement toward what Karl Polanyi referred to as a Phase II type of economic and social development — a decisive shift toward explicit state intervention, not only to stabilize and regulate the markets, but also to create conditions for wealth creation and efficient resource allocation.⁴⁶ A significant development that has the potential to be part of such a shift is the establishment by the Association of Southeast Asian Nations (ASEAN) +3 (i.e., the ASEAN countries plus Japan, South Korea, and China) of a 'network of currency swap/repurchase arrangements, designed to protect member countries against the sudden withdrawal of hot money investment by Western speculators'.⁴⁷ China's dual role in the G20 and ASEAN+3 will prove quite interesting vis-à-vis imposed leadership. The question that arises here is the effectiveness of the ASEAN currency swap, given that China remains tied to the DWSR. In Latin America, too, there is a nascent and patchy move towards what is loosely referred to as the 'Buenos Aires consensus', which is essentially an alternative to the orthodoxy of the Washington consensus in that it is aimed at 'sharp tax reforms, productivist integration of national economies, social safety nets and democratized state and political systems'.⁴⁸ The potential threat posed to the DWSR by these regional 'double movements' is that they could result in the re-introduction of the developmental state, which by its very definition implies protectionist policies that could be more than merely rhetorical. In short, the peril these alternative political forms of capitalism pose to the United States is their ability to delegitimize the principle of free capital mobility throughout the global political economy.

A domestic variant of the ‘double movement’ is an attempt to cope with the crisis of the state by defying the orthodox development strategy prescribed by the Washington Consensus and re-embedding the market economy in society — but without ceding material concessions and political empowerment to the masses. José Ocampo, the Executive Secretary of ECLAC, points out that Latin America implemented the most extensive reforms based on the Washington consensus yet ‘growth in the 1990s was on 3.2% a year, far below the 5.5% record set during the three decades of State-led development from the 1950s to the 1970s.’⁴⁹ Noting that other major players and pundits agree that liberalized capital accounts do not create economic prosperity, Ocampo argues that emerging market states can only hope to strengthen the international financial system if the international community grants them freedom to increase their policy autonomy — especially over capital account liberalization and exchange rate regimes — so that they can devise policies to shield their countries from the devastating socio-economic effects brought about by speculators. This would allow governments more breathing space in which to find a new balance between the market and the public interests, aligning public policy with the objectives of civil society.

It is very clear that neither of these two kinds of ‘double movement’ is reformist, let alone revolutionary. Indeed, they are attempts by political elites and bourgeoisies to secure export competitiveness whilst repressing domestic class struggle. Yet these strategies, aimed at salvaging political legitimacy whilst overcoming the obstacles to capital accumulation, do have the potential to throw a spanner in the works of imposed American leadership and could lead to disciplinary reactions from the World Bank, the IMF and the credit-rating agencies. Nevertheless the structural contradictions of imposed leadership could continue to weaken the political strategy of DWSR and global finance, which in turn could open up fresh space for political protest and the struggle to radically transform class relations in the emerging market countries and beyond.

NOTES

I would like to thank Benjamin J. Cohen, Colin Leys, Leo Panitch, Christopher Roberts, and Marcus Taylor for commenting on earlier drafts of this essay. The usual disclaimers apply.

- 1 World Bank, *World Development Report 2000/2001: Attacking Poverty*, Oxford: Oxford University Press, 2000, p. 3.
- 2 José Antonio Ocampo, ‘Rethinking the Development Agenda’, Santiago, Chile: ECLAC, <http://www.eclac.org/noticias/articulos/4/5784/rethinking3.pdf>.
- 3 Peter Gowan, *The Global Gamble: Washington’s Faustian Bid for World Dominance*, London: Verso, 1999.
- 4 ‘A Survey of Asian Business: In praise of rules’, *The Economist*, 7 April 2001, p. 3. The ‘crony-factor’ as an explanatory variable has been criticized by many authors across the political spectrum: see, for example, Jeffrey Sachs,

- 'The IMF and the Asian Flu', *The American Prospect*, No. 37, March-April 1998, <http://epn.org/prospect/37/37sachf.html>; and Walden Bello, 'East Asia: on the eve of the great transformation?', *Review of International Political Economy*, 5(3) 1998.
- 5 George Soros, 'Capitalism's Last Chance?' *Foreign Policy*, 113 (Winter 1998-99), p. 55.
 - 6 David Felix, 'The Economic Case Against Free Capital Mobility', in Leslie Armijo Elliot, ed., *Debating the Global Financial Architecture*, New York: SUNY Press, forthcoming, p. 172.
 - 7 Alexandre Lamfalussy, *Financial Crises in Emerging Markets*, New Haven: Yale University Press, 2000, pp. 47-66.
 - 8 Philip Arestis and Malcolm Sawyer 'What role for the Tobin tax in world economic governance?', in J. Michie and J. G. Smith, eds., *Global Instability: The Political Economy of World Economic Governance*, London: Routledge, 1999, p. 153.
 - 9 Jagdish Bhagwati, 'The Capital Myth: The Differences between Trade in Widgets and Dollars', *Foreign Affairs*, (May/June) 1998, p. 10.
 - 10 James Tobin, 'A proposal for international monetary reform', *Eastern Economic Journal*, 4 (3-4), 1978.
 - 11 Arestis and Sawyer, 'What role for the Tobin tax', p. 163.
 - 12 Benjamin J. Cohen, 'Capital Controls: The Neglected Option', in Geoffrey R.D. Underhill, ed., *What is to be Done? Global Economic Disorder and Policies for a New International Financial Architecture*, forthcoming, 2001.
 - 13 Giovanni Arrighi, *The Long Twentieth Century: Money, Power, and the Origins of Our Times*, London: Verso, 1994, p. 29.
 - 14 Following Antonio Gramsci hegemony entails both coercion and consensus, which are intimately intertwined in a dialectical relation — albeit consensus is more predominant than coercion in a hegemonic situation. The inverse is true during non-hegemonic periods.
 - 15 Geoffrey R.D. Underhill, 'Private Markets and Public Responsibility in a Global System: Conflict and Co-operation in Transnational Banking and Securities Regulation', in Geoffrey R.D. Underhill, ed., *The New World Order in International Finance*, London: Macmillan Press, 1997, p. 31.
 - 16 For more policy-oriented discussion of the Washington Consensus, see John Williamson, 'Democracy and the Washington Consensus', *World Development* 21(8), 1993; John Williamson, *Latin American Adjustment: How much has happened?*, Washington, DC: Institute for International Economics, 1990.
 - 17 On the importance of the role of the state in globalization, see, for example, Leo Panitch, 'The New Imperial State', *New Left Review*, (March-April) 2000, pp. 5-20.
 - 18 Cohen, 'Capital Controls'.
 - 19 Gowan, *The Global Gamble*, p. 58.
 - 20 Doug Henwood, *Wall Street: How it Works and For Whom*, London: Verso,

- 1998, p. 24: '[a]t the centre of the market are 38 major investment and commercial banks who are certified as primary dealers by the Federal Reserve Bank of New York — the choice inner circle with which the Fed conducts its official monetary business'.
- 21 IMF, 'IMF Builds on Initiatives to Meet Challenges of Globalisation', *IMF Survey*, Washington, D.C.: IMF, September 1997, p. 8.
 - 22 Cohen, 'Capital Controls', p. 4.
 - 23 Gowan, *The Global Gamble*, pp. 35ff.
 - 24 John Dillon, *Turning the Tide: Confronting the Money Traders*, Ottawa: Canadian Centre for Policy Alternatives, 1997, p. 70.
 - 25 *New York Times*, 1 November 1997.
 - 26 Susan Strange, *Casino Capitalism*, Oxford: Oxford University Press, 1986, pp. 92-5.
 - 27 Ilene Grabel, 'Marketing the Third World: The Contradictions of Portfolio Investment in the Global Economy', *World Development*, 24 (11), 1996, p. 1763.
 - 28 'Mexico: Slowing economy, quickening politics', *The Economist*, 19 May 2001, p. 33.
 - 29 José Antonio Ocampo, 'A Broad Agenda For International Financial Reform, in J. A. Ocampo *et al.*, eds., *Financial Globalization and the Emerging Markets*, Santiago, Chile: UN Economic Commission for Latin American and the Caribbean, 2000.
 - 30 'The New Financial Architecture', *Financial Times*, 24 September 1999.
 - 31 For more information, see the G20 website at www.g20.org.
 - 32 The first meeting of the G20 was convened in Berlin in 1999. The second was held in Montreal in 2000. The 2001 meeting is to be announced.
 - 33 <http://www.fsforum.org>
 - 34 'The New Financial Architecture', *Financial Times*.
 - 35 Recently, the former chief economist of the World Bank, Joseph Stiglitz, as well as officials of the IMF, such as Deputy Managing Director Stanley Fischer, have championed the use of limited, or country-specific, capital controls in select emerging market economies. See, for example, J. Stiglitz, 'The Role of International Financial Institutions in the Current Global Economy', Washington, DC: World Bank, 27 February 1998.
 - 36 John Williamson, 'Orthodoxy is Right: Liberalize the Capital Account Last', in C. P. Ries and R. J. Sweeney, eds., *Capital Controls in Emerging Economies*, Boulder, CO: Westview Press, 1997, pp. 13-16.
 - 37 IMF, 'Report of the Acting Managing Director', p. 12; Barry Eichengreen, *Toward a New International Financial Architecture*. Washington, DC: Institute for International Economics, 1999; IMF, 'Capital Account Liberalization and the Role of the IMF', *IMF Survey*, Washington, DC: IMF, 20 October 1997.
 - 38 See, for example, D. J. Mathieson and G. J. Schinasi, *International Capital Markets: Developments, prospects, and Key Policy Issues*, Washington, DC: IMF,

September 2000, sections 1-7.

- 39 On 1 September 1998, Mahathir Mohamad, the Malaysian Prime Minister, announced a system of currency controls on short-term capital, which was explicitly based on the Chinese capital controls. In effect, this prevented purchasing of foreign exchange for speculative purposes by both residents and foreigners.
- 40 See, for example, IMF, *Recovery from the Asian Crisis and the Role of the IMF*, Washington, DC: IMF Staff Essays, 2000; IMF, *Capital Controls: Country Experiences with their Use and Liberalization*, Occasional Essay 190, Washington, DC: IMF, 17 May 2000 parts 1-3.
- 41 Asian countries have always had a high rate of savings vis-à-vis the rest of the world. However, in the post-Asian environment, these rates have risen considerably. Malaysia and Singapore, for example, had rates hovering around 45 per cent of their respective GDP levels, while savings levels in Hong Kong registered at about 30 per cent of GDP and Japan at 27 per cent. *Taipei Times*, 9 July 2000.
- 42 Robert Wade and Frank Veneroso, 'The Asian Crisis: The High Debt Model Versus the Wall Street-Treasury-IMF Complex', *New Left Review*, 228 (March/April) 1998, p. 22.
- 43 John Zysman, *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change*, Ithaca: Cornell University Press, 1983.
- 44 Cf. 'In Praise of Rules', *The Economist*, 7 April 2001.
- 45 See, for example, Jorge Casteñada, 'Mexico: Permuting Power', *New Left Review*, 7 (January-February), 2001; 'Slowing economy, quickening politics', *The Economist*, 19 May 2001.
- 46 Karl Polanyi, *The Great Transformation*, Boston: Beacon Press, 1968.
- 47 Tim Armstrong, 'Asia is going it alone', *Globe and Mail*, Monday, 12 February 2001.
- 48 J. Casteñada, 'Mexico: Permuting Power', p. 16. Cf. S. Soederberg, 'From Neoliberalism to Social liberalism: Situating the National Solidarity Program within Mexico's Passive Revolutions', in *Latin American Perspectives*, 28 (3), May 2001.
- 49 Ocampo, 'A broad agenda', p. 56ff.