

# The GEM Consensus

By [The Moscow Times](#)

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At the end of March, President Dmitry Medvedev laid out what is one of the clearest expositions of the Global Emerging Markets consensus that is challenging — and may replace — the old world order of the "Washington consensus."

The GEM economies have been growing strongly for about a decade, but as prosperity really starts to take hold in the new world the transformation is being to get political as leaders switch from fighting economic bushfires to building for the long term.

The 2008 crisis has brought into question the validity of the world's dominant liberal ideology, dubbed the Washington consensus, which now looks fatally flawed and led to the recent meltdown.

However, no one on either side of the jump has rejected capitalism, nor have they reached for the palliative of protectionism. Indeed, everyone has stuck to Nobel laureate Paul Krugman's economist's creed: "I understand the principles of comparative advantage and I believe in free trade." If there has been any monkey business going on, then it is with

China's — and more recently the United State's — largely successful attempts to manipulate its own currency.

What is being debated is what form of capitalism is best. In the West, this boils down to a debate over what is the best size of government — big or small — and is epitomized by the charge of "socialism" that the Republican Party is hoping to slander Democrats with.

But the whole program of the Washington consensus' neo-liberal policies, favored by the International Monetary Fund and the World Bank, is now in serious trouble. More importantly, emerging markets have never been comfortable with the attempt to foist the West's economic agenda of liberalizing trade and finance and linking it to the Wilsonian self-determination agenda. But because the GEM countries were poor, in crisis, or both, they had to shut up, or the IMF would not put up.

Now that the GEMs are rich and the West is poor, the fast growing countries of the new world are free to completely ignore these values, and a new ideology has been emerging over the last two years. At the same time, the West has been left with an ideological and moral vacuum. As Plamen Monovski, CIO at Renaissance Asset Managers, wryly put it in a recent note: "Since the crisis struck, quite the opposite is true. The considered discussions have turned into open conflicts, covered with a patina of civility, as diametrically opposed interests collide. Watching this circus, the world suddenly feels distinctly directionless. There is no G20, G8, G7 or G2 (U.S.-China). These are the times of Go."

One of the most radical departures from the Washington consensus is a rejection of the de rigueur separation of commerce and state. Prime Minister Vladimir Putin could have bashed the oligarchs when he took over in 2000; he choose to co-opt them instead in what has been dubbed "ZAO Kremlin" (closed joint stock company Kremlin). Russia's biggest businessmen go for regular one-on-one meetings with the prime minister to get their investment plans approved. China has the same model: Many firms are nominally private but none will act without coordination with the government, which retains a de facto veto over any plan.

More generally, Monovski describes the GEM consensus as relying "on protection of nascent industries, greater state spending on infrastructure, emphasis on social issues as a countercyclical force, producing resources and relentless industrialization at the expense of services. ... This model emphasizes the value of domestic savings and derides the foreign capital fetish."

There is no mention here of civil society, "freedom" or voter's rights. Indeed, these values all assume a central role for government, all core values in the Western system as summed up in President John F. Kennedy's classic speech during the Cuban missile crisis: "Our goal is not victory of might but the vindication of right — not peace at the expense of freedom, but both peace and freedom, here in this hemisphere and, we hope, around the world."

Neither Russia nor China would ever presume to comment on the state of "freedom around the world." China follows Deng Xiaoping's principle of *tao guang yang hui*, or "hide brightness, nourish obscurity," while Russia's core concept in foreign policy is the promotion of a "multi-polar" world.

The absence of liberal political values in the GEM consensus makes the emerging markets

more introspective: Both China and Russia don't like outside interference and play relatively subdued roles in international affairs. Neither has contributed to the three wars that the United States is currently fighting, and indeed Russia strongly objected to the bombing of Libya (although it didn't thwart it), because the bombing violates the principle of self-determination, the Kremlin said. Ditto the bombing of Kosovo.

The upshot is that liberal politics has been separated out, and what is left is the state's obligation to care for and support society. This emphasis — an attempt to de-politicize the relation between the state and its people — is clearly manifest in both China's and Russia's policies.

Chinese President Hu Jintao's domestic policies are designed to promote fast economic growth, but also emphasize good governance and a strong social safety net, encouraging independent innovation, perfecting the financial system and stimulating domestic consumption.

Medvedev was even more explicit in laying some of the details of Russia's version of the GEM consensus during his [speech](#) in Magnitogorsk on March 30, mapping out 10 goals for the government, which remains at the center of the plans, and putting deadlines on when they should happen:

1. Reduce social taxes and the cost of healthcare procurement
2. Follow up on corruption complaints and make bureaucrats more accountable to the public
3. Improve the predictability of the regulatory environment
4. Appoint an investment ombudsman in each of the federal districts to make investing easier and cut through red tape
5. Accelerate the privatization program for firms that are ready to compete and replace government appointees from state-owned companies in "competitive sectors"
6. Improve transparency by forcing disclosure by law to protect minority shareholders
7. Set up a state backed FDI fund
8. Reduce the number of "strategic sectors"
9. Improve and streamline business services like customs, visa, work permits, and the agencies controlling them
10. Organize a "mobile presidential reception" that will roam the country to better understand the problems faced by the regions and the people

*The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.*

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