



## **Institutional Collapse: The End of Globalisation?**

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[Joergen Oerstroem Moeller](#) 03 Mar 2008

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In September 2002, former Secretary-General Kofi Annan spoke to the General Assembly about there being no substitute for the unique legitimacy provided by the United Nations. These words reverberated even more so as they were cruelly ridden roughshod over a couple of months later. The United Nations found itself a spectator, having no influence on military action undertaken in the name of the international community. A coalition of the willing was formed and went ahead to do the needful in Iraq.

The basis of UN reforms – especially the automatic and exclusive right of veto for the five victorious nations in 1945 – pose the question: How it is possible to live with a directorate of the five mightiest powers in 2008? Possession of nuclear weapons is increasingly perceived as the ticket to influence. The Non-Proliferation Treaty (NPT), a cornerstone in international ‘legislation’ from the cold war period, stand in the way of nations wishing to acquire nuclear weapons, appears to have fallen apart without much attention. Several countries have acquired the bomb – and have made it public. Iran, we are informed is apparently scrambling to do so. A number of countries are waiting in the wings. South Africa manufactured a handful in the bad old days of apartheid, only to give them up later. Today, aspiring nuclear powers reason in the same way: Influence comes with a posture that forces the US to take them seriously.

Among the powers with the right to veto, not a single voice comes from Africa, the Middle East and Latin America. China is the only power that represents a vast Asia. This is a paradox that defies logic because most of the problems discussed and negotiated in the Security Council occur precisely in these geographical regions.

The International Monetary Fund (IMF) was until early to mid-1990s one of the most powerful international institutions, instilling fear in countless Finance Ministers around the globe. It was the prime example of the influence of the international power elite. Today, it has become an institution operating in a vacuum with little or no demand for its services, desperately searching for a role. In 2003, outstanding loans amounted to almost 80 billion SDR. Last year, that figure was down to less than 20 billion SDR. Many countries simply do not want the IMF to step into their economies as they have lost confidence in the ability of the Fund to guide them through economic and monetary policies – regardless whether the economic aid is justified or not.

The former President of the World Bank Paul Wolfowitz, reinducted the Bank into the limelight, but questions about its role had long been simmering. The Bank had shifted its focus somewhat from pure economics to one with a quasi-moral and ethical ballast, seeking to root out corruption and nepotism. The philosophy of this effort was that such distortions constituted obstacles to future growth. Therefore an attack on them was in conformity with the Bank's objective of growth and development.

This was commendable, but many observers and many countries, even if they subscribed to these objectives, questioned whether the Bank had got the balance right between supporting and promoting investment projects on the one hand, and issues related to good corporate government policy, on the other. The World Bank has – unwillingly – put the same question that harassed on the IMF on the agenda: is it needed anymore? The challenge facing its new President, Robert Zoellick, is to draw the lesson from business and private banking: you do not do a number of things which you are good at, you do one thing only and that is what you are best at. Concentration upon the core functions is the key to success in economic realm.

The World Trade Organisation (WTO) has over the last few years fought tooth and nail to secure approval for further liberalisation of global trade – the Doha Round. There are several reasons that account for the increasingly unpredictable terrain ahead. One is the obvious difficulty of switching from agriculture and manufactured goods to new sectors such as services, intellectual property, investment etc., a realm much less transparent and much more difficult to liberalise than the mere reduction of tariffs. The European Union ran into the same difficulties in the 1980s when establishing the Single Market, an enterprise only possible because of its unique structure as a rule-based organisation underpinned by pooling sovereignty.

The WTO cannot boast a similar structure. The other reason is that the WTO like the UN, the IMF and the World Bank, hosts an out of date decision-making mechanism. Decisions are passed unanimously. For many years it worked, with “worked” akin to

state of affairs where the EU and US agreed, and the rest of the world approved. This modus operandi is an anachronism in present day circumstances when countries like India, China, Brazil, Egypt, South Africa amongst others are not content to applaud, but regard themselves as legitimate decision-makers.

The new Director-General, Pascal Lamy, is trying hard to maneuver round these rocks to strengthen the global trade system. The wall to overcome became more onerous when the US Congress in mid-2007 decided not to renew the so-called fast track authority undermining confidence that Congress would not honour the commitments entered into by the Bush administration.

This new trend in US trade policy was highlighted when Senator Hilary Clinton told Financial Times late last year that she would ask hard questions on whether it was worth reviving the stalled Doha round of world trade talks if she were elected US president. She believed that the theories that underpinned free trade might no longer hold true in the era of globalisation. In the same article Senator Clinton raised the alarm about sovereign wealth funds asserting that they posed a potential threat to America's "economic sovereignty".

Three current issues illustrate the need for leadership - leadership that no multilateral institution let alone the IMF, World Bank or IMF is likely to exhibit.

The US Dollar's slide on the currency markets is of concern especially since it shows no signs of abating. So far, the markets do not seem unduly worried, but as events have proved so many times before, that may change in a few seconds. Asia, in possession of 2/3 of all global currency reserves has a vital interest in the stability of the currency markets and the future exchange rate of the US Dollar. If policy makers do not step in, markets may take over with incalculable and potentially damaging consequences. Economic history indicates that market driven adjustment tends to overshoot and bring along the unwelcome side effects of economic may be even political instability.

Sabre rattling from the US and the EU augurs the risk of a gradual reversal of global trade liberalisation. Even if Asia is becoming a more self-sustaining economic area, it is dependent on access to overseas markets. The Asian economies are developing their expertise in mature industries with research, technology and innovation as drivers. If the momentum for trade liberalisation is lost, the opportunity for mapping out future rules for these issues may fade away to haunt Asia a few years down the road. The danger for Asia may be even larger especially when the US and Europe starts to beat the drum, insisting that Sovereign Wealth Funds may not – at least not in all cases – be a welcome investor.

The evidence that global warming has emerged as one of, and perhaps the most important threat to global security and stability is growing almost with the same speed as disturbing reports about deforestation, melting ice caps in the Arctic and the diminishing capacity of the oceans to absorb emissions of carbon dioxides. The Europeans have taken a clear lead while the rest of the world so far continues to sit on the sidelines. The same applies for the US, at least until the presidential election at the end of 2008.

An acrimonious battle about burden sharing has already started, but irrespective of political and economic arguments against it, Asia has to step in and shoulder some of the burden. In such circumstances, it may be preferable to harvest a political point by taking leadership roles to draft new rules rather than to adjust what others may put forward.

Asia will suffer most if things go wrong. The established Western countries are discovering that rules instituted by them to govern the global system have started to work against them and in favour of emerging Asian economies. This calls for Asia to take the lead. If not for other reasons, then out of sheer necessity. If Asia does not, somebody else will and this will almost certainly not be in Asia's interests.

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