

From the Desk of...

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Power, rules and international leadership: Guy deJonquières, Fellow with the European Centre for International Political Economy, shares his views.

As the global economic crisis has unfolded, there have been intimations that it is the haringer of more profound and enduring changes in the world order. Predictions have become frequent that the crisis will accelerate a decline in US hegemony and a long-term shift in economic power – whatever that term means – from the west to the east and the south. More ambitiously, there are calls for new multilateral economic and financial architecture to strengthen or replace the Bretton Woods system.

The two Group of 20 summits vividly captured the mood of the times. They implicitly recognised that economic interdependence was even greater than previously acknowledged and that its management must involve a wider and more diverse range of players. They are headed by China, once regarded in the west as a source of problems, but today viewed increasingly as indispensable to any solutions.

Given potential for disagreement between the participants, both summits passed off remarkably smoothly. The London one in April even took a few decisions. However, the summits marked, at best, only the early beginnings of a quest for new modes of global co-operation: they were spurred, not by any sudden convergence on substance, but by a panicky realisation that if governments did not hang together, their economies would assuredly hang separately.

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Much of what was discussed amounted only to identifying issues for possible future negotiation. The test of the spirit of co-operation will come once the threat imminent meltdown has receded and the G20 have to start trying to agree on specific, concrete actions. Meanwhile, continuing deadlock in the World Trade Organisation is a sobering antidote to new-found faith in the virtues of multilateralism. It is a depressing commentary that, at a moment when risks of protectionism are multiplying, WTO members cannot muster the relatively modest energy and commitment needed to conclude the Doha round.

When we talk of multilateralism, what exactly do we mean? Our perceptions are heavily coloured by the model that emerged after the Second World War. Necessarily so, because it is the only one we have. It has, or had, four principal defining features. It had a clear leader, being, paradoxically, the child of (largely benign) US hegemony; it was driven as much by a geo-political vision as by economic necessity; it was a direct response to the collapse of international order and ruinous armed conflict; and it was informed by and based on distinctly western concepts and traditions of hard law, strong institutions and binding rules.

Today's world is very different: indeed, the circumstances that shaped multilateralism in the

second half of the 20th century may well have been unique. Though the risk of another world war can never be ruled out, it appears, thankfully, a remote threat at present. And while the US remains the pre-eminent superpower, it no longer possesses the will, capacity or encompassing vision to foist grand designs on the rest of the world, either by force or through benign leadership.

Indeed, the US stake in the system has been in decline since 1971, when the unhitching of the dollar from gold put the skids under the Bretton Woods fixed-exchange rate system. Two decades later, the end of the Cold War robbed the US of the overarching geopolitical rationale that long sustained its global role, and of the domestic consensus needed to support it. Meanwhile, growth and prosperity have propelled new players onto the world stage. Yet none appears ready or equipped to step up and exercise the far-sighted stewardship that the US long provided for multilateral co-operation. As a consequence, today's world faces something of a leadership vacuum.

Effective international leadership requires several attributes. Chief among them are: a clarity of strategic purpose; a willingness to interpret national interest in a broad longer-range perspective that looks beyond narrow, near-term advantage; a capacity to articulate objectives, values and principles in ways that other countries perceive as being of direct and tangible benefit to them; and a talent for brokering constructive compromise.

Of the possible candidates to fill the vacuum, the European Union, is too divided and institutionally constrained to exercise a strong lead, other than over smaller members on its borders and in a few specific fields, such as climate change; Japan lacks a coherent or distinctive global vision, having long sub-contracted its foreign and security policies to Washington; China's foreign policy, though increasingly outspoken in defence of national interests, still shrinks from broader responsibilities commensurate with its economic weight; and India's international ambitions remain regional rather than global.

Furthermore, the underlying belief in hard law and strong institutions that characterised the US-inspired model of multilateralism is not widely shared outside the west. That is particularly true in east Asia, with its preference for process and "soft" diplomacy over hard outcomes, formal organisations and enforceable rules as the means to promote international co-operation and integration. While that approach has obvious limitations, exemplified by ASEAN's difficulty in converging on common regional policies, it has deep roots.

Further complicating the picture are two other, closely-related but partially contradictory, trends. One is that the advance of globalisation has diffused power around the world, encouraging ever more countries to assert their right to be heard. Yet their individual capacity to influence each other has diminished, because just about everyone feels entitled to say no. In the pursuit of enhanced legitimacy, efficiency has been compromised. That is one of the central dilemmas bedevilling the WTO. It makes effective international leadership more important than ever, but also even harder to exercise.

This state of affairs gives rise to reflections on the nature of power. We are sometimes told that China's rapid development, bulging foreign exchange reserves and importance as an international creditor have endowed it with economic and financial power, particularly over the US. But how real is that power, when so much of China's growth depends on a healthy US economy, and when, as Beijing recognises, any attempt to exert leverage over Washington by dumping dollars could severely damage China's own prosperity? Equally, threats in Washington to "punish" China over its currency regime would, if ever implemented, rebound hard on the US economy.

There are some positive aspects to this situation. It has - or seems to have - produced what economists call a state of "stable disequilibrium": less portentously, it could be described as "muddling

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through". Co-existence has been achieved, less by countries' success in overcoming their differences than by their realisation that exploiting them would immediately and seriously threaten their own welfare. In Cold War terminology, this used to be known as the doctrine of Mutually Assured Destruction. Whether it will continue to operate, and to inspire pragmatic mutual accommodation and co-operation, is an unanswerable question.

But even if it does, it will not be sufficient to respond effectively to problems that are genuinely global in nature. One key to promoting multilateral co-operation is to define precisely what they are. Climate change is one. Better management of financial imbalances, arising from differential savings rates, another. But many issues often portrayed as "global" are actually mainly national. At the root of the credit crisis lay deficient regulation in the US and Britain. Likewise, the clamour in some European countries for global restrictions on hedge funds looks like opportunistic pandering to vested interests at home, particularly since the funds played no obvious role in the financial crisis. Interestingly, all the main issues on the London G20 summit agenda, except increasing IMF lending capacity, were primarily domestic policy matters.

A second key is to recognise that, even where problems are global, solutions can be achieved only when there is a national interest in finding them. External pressure may help that interest to grow. But

the will to undertake policy reforms, and the incentives to carry them through, must be there in the first place. Crude attempts to coerce reluctant countries into compliance will not work.

Nor will sweeping "top down" actions, especially when taken at summits by leaders unfamiliar with intricate but vital technical details of the dossiers they are called upon the deal with. Of course it is better that leaders should meet regularly than not. But summits' dubious record of delivering substantive agreements that are then properly implemented should inspire a cautious assessment of their utility.

This is not to disparage multilateral dialogue, but rather to emphasise that it is unlikely to be productive unless realistic goals are set. Without clear international leadership, either from one dominant power or on a shared basis, a great deal of ground-clearing must be done in order to define a common agenda and to establish the essential basis of trust between those involved.

This can best be done by building from the bottom up, not by imposing from the top down; by getting domestic policies right and ensuring that they command the necessary political support. Planning elaborate multilateral edifices without first sinking solid foundations for them will simply create castles in the air. The route towards effective multilateral co-operation begins at home.

About Guy deJonquières and The Insight Bureau

Guy de Jonquières spent a long and illustrious career as one of the world's top journalists at the Financial Times, serving across the world and covering issues as diverse as world trade, industry, economics, emerging markets and financial markets. His last post at the FT was in Hong Kong writing primarily about the strategic emerging markets of China and India. He retired from the FT and returned to London where he is currently a Fellow with the European Centre for International Political Economy (ECIPE) . Guy chairs and moderates high level business events around the world and makes keynote presentations drawing on the wealth of his observations.

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