FTD/Wirtschatswunder, 23 January 2007

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The Struggling Giants

The ministers, business executives and experts who converge on the Swiss mountains for the annual Davos forum will once again discuss how to make globalisation sustainable. The issue is certainly more topical than ever and the stakes are higher than ever.

But what a difference a few years can make! In the aftermath of the Asian financial crisis and the demonstrations at the WTO ministerial conference in Seattle in 1999, the international organisations – the World Trade Organisation, the International Monetary Fund and the World Bank – were the targets of protests and the focus of all attention. Those mighty giants were seen as taking over from national governments and were accused of imposing economic choices at odds with social preferences.

A few years later, the international organisations almost rank among the losers from globalisation. The WTO – an organisation run by consensus in which all countries big and small are supposed to have equal weight – is at pains. The Doha talks were framed as a “trade for development” round but the complexity of the negotiation has considerably increased with the emergence of India, Brazil and China as key players and the forming of a more effective coalition of the developing countries. Interests and constraints appear increasingly difficult to square and even the hopeful openly question the adequacy of the WTO negotiation cycles. Meanwhile, the regional trade agreements are blossoming again and several of the trade powers – not least the US and the EU – explicitly envisage that route as an alternative to the multilateral one.

The IMF’s problem is the opposite one: its clients are vanishing. In the late 1990s, the Fund was simultaneously supporting the transition in Eastern Europe and Russia, providing large-scale assistance to Asian and Latin American countries in crisis, and helping Africa. But the transition has ended; a large part of Eastern Europe has joined the EU; Russia is awash with oil revenues; Asian countries have built up huge foreign exchange reserves to make sure that they will never have to rely on the IMF anymore; and traditional Fund clients such as Argentina and Brazil are repaying their debts. What remains is Africa, admittedly an important task but hardly a sufficient justification for the existence of an institution at the centre of the world’s financial system. The Fund has tried to reinvent itself as a venue for multilateral consultations on global imbalances and exchange rates. Whether or not it will be able to deliver on this commitment remains to be seen, but the gamble is certainly a risky one.

The fate of the World Bank, is in many ways similar. With the unfolding of financial liberalisation, the Bank’s traditional role as a financial intermediary at the service of development has been undermined by the growth in private capital flows to emerging countries. The institution, which regards itself as a "knowledge bank", has moved towards promoting poverty-reducing policies and fighting corruption, a programme to which its recently appointed president, former Pentagon official Paul Wolfowitz, gives high priority. However the Bank needs financial leverage to promote good policies. In the early 2000s, it had found an instrument to this end with the debt reduction programmes and the revival of development aid. But its clout is being challenged by China's willingness to extend credit to African countries in exchange to better access to their raw material resources. Sure, there are strings attached to those credits too, however none of the scrutiny involved in the Bank's assistance.

So should we rejoice at the apparent decline of the would-be giants? Those for which the nation state is the ultimate player on the international arena certainly do. But this overlooks that legitimate and strong international institutions are essential to make sure that all countries are players in the definition of the rules that govern the world economy. The weakening of yesterday's giants leaves more room for traditional power game. We know from experience that this is not the best recipe for making globalisation sustainable.