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The International System

I am not referring to the absolute, infinite concept of universal peace and good will of which some fantasize and fanatics dream. I do not deny the value of hopes and dreams, but we merely invite discouragement and incredulity by making that our only and immediate goal.

Let us focus instead on a more practical, more attainable peace—based not on a sudden revolution in human nature but on a gradual evolution in human institutions—on a series of concrete actions and effective agreements which are in the interest of all concerned. There is no single, simple key to this peace—no grand or magic formula to be adopted by one or two powers. Genuine peace must be the product of many nations, the sum of many acts. It must be dynamic, not static, changing to meet the challenge of each new generation. For peace is a process—a way of solving problems.

With such a peace, there will still be quarrels and conflicting interest, as there are within families and nations. World peace, like community peace, does not require that each man love his neighbor—it requires only that they live together in mutual tolerance, submitting their disputes to a just and peaceful settlement.

JOHN F. KENNEDY

Commencement address at American University, June 10, 1963

The year 1945 was the end of a nightmare. Never in world history had there been a period as devastating as the years between 1914 and 1945. In the First World War, the trench warfare on the European western front and the massive casualties in Russia, Asia, and the Middle East led to tens of millions of deaths. More than 50 million people died in the Second World War. A genocide carried out with industrial efficiency exterminated close to 6 million people just because of their identity. Perhaps 20 million people died of starvation and in labor camps in Stalin's Soviet Union. Allied napalm bombing killed 30,000 civilians in Dresden in just one night. The first two atom bombs killed 150,000 Japanese. It is difficult, 60 years later, to fathom the extent of the mayhem.

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The disasters of the mid-20th century were no doubt caused and magnified in part by the economic hardships experienced during the Great Depression. In the early 1930s, more than 20 percent of the US and European workforces were unemployed, with very little of the social welfare state support that was built into the advanced market economies after the Second World War. Economic cooperation between major countries was minimal. Average annual world GDP per capita growth declined from 1.3 percent over 1870–1913 to 0.9 percent during 1913–50. Growth in the volume of merchandise exports decreased from 3.4 percent to 0.9 percent in the respective periods, reflecting a significant decline in integration of the world economy through trade.¹ Economic and political problems created a vicious circle of violence and despair that imposed an almost unimaginable degree of suffering on hundreds of millions of human beings.

Against this backdrop, opinion leaders such as British economist John Maynard Keynes conceived of a new international system at the end of the Second World War, with the support of the victorious allied governments. That system included the United Nations as well as the Bretton Woods institutions. The UN charter, signed on June 26, 1945, in San Francisco at the UN Conference on International Organization, came into force on October 24 of that year. The preamble of the UN charter states:

We, the peoples of the United Nations determined to save succeeding generations from the scourge of war, which twice in our lifetime has brought untold sorrow to mankind, and to reaffirm faith in fundamental human rights, in the dignity and worth of the human person, in the equal rights of men and women and of nations large and small, and to establish conditions under which justice and respect for the obligations arising from treaties and other sources of international law can be maintained, and to promote social progress and better standards of life in larger freedom, and for these ends to practice tolerance and live together in peace with one another as good neighbors, and to unite our strength to maintain international peace and security, and to ensure, by the acceptance of principles and the institution of methods, that armed force shall not be used, save in the common interest, and to employ international machinery for the promotion of the economic and social advancement of all peoples, have resolved to combine our efforts to accomplish these aims.

1. Maddison (2001, 126–27, tables 3-1a and 3-2a).

From its inception, the international system had the mutually complementary objectives of creating structures of world security and political governance, as well as economic cooperation, that would protect the planet from World War III and promote economic reconstruction, stability, and growth. The extent of the catastrophe that the world had just endured encouraged an ambitious and far-reaching design. Many opinion leaders of the time thought that the United Nations should evolve toward a limited form of international governance that would prevent a return to balance-of-power politics and protect the world from nuclear holocaust. The invention of nuclear weapons and their terrifying potential to destroy humankind made a world order based on the rule of law the overriding priority.

It is important to stress, however, that the limited world governance envisaged by the UN's founding fathers was firmly based on cooperation between territorially based and sovereign Westphalian nation-states. These states were the only actors on the international stage and the only entities that could claim democratic legitimacy. It was correctly foreseen that the end of colonial empires would multiply the number of these sovereign actors. Decolonization would not, however, change the nature of the international system based on nation-states as the legitimate entities to engage in cooperation, sign treaties, and agree to abide by certain standards. The ideological atmosphere in the second half of the 1940s was broadly conducive to the "one nation-state, one vote" system that became the basic operating principle for the UN General Assembly. Thus, the period immediately following the Second World War was one of great triumph for nation-states. In the postwar struggle for the hearts and minds of the people of the world, both the United States and the Soviet Union stressed the right of the nations emerging from the old colonial empires to self-determination. In theory, if not in practice, the superpowers also subscribed to the notion of basic legal equality between nation-states.

However, the founding fathers of the postwar international system wanted to maintain the alliance against the defeated axis powers to forestall a resurgence of the defeated, particularly Germany, as happened in the 1930s. In addition, the design of the UN had to recognize that nation-states were very unequal in power and wealth. This led to a structure with five permanent members on the UN Security Council with veto power—the United States, the United Kingdom, France, Russia and China, often called the "Permanent Five." The permanent members, in effect, were the key victors of World War II. The veto arrangements reflected the

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unwillingness of the most powerful nation-states to subscribe to a system that could at times overrule them. This dual design was a hybrid between idealism and realism that was in tune with the world of the mid-20th century. The General Assembly was to be a kind of world consultative body with the individual sovereign states as equal members, and the Security Council would be the governing *directoire* managing world affairs, at least in the political and security sphere. The design was less than perfect from the start, but it was a vast improvement over what preceded it—the absence of any institutional framework whatsoever—and it marked the beginnings of institutionalized international legality in the postwar period.

In the economic sphere, freer trade and orderly cooperation were to replace the extremely harmful “beggar thy neighbor” policies of protectionism and competitive devaluations that had been responsible for much damage during the interwar years. At the domestic level, active and countercyclical monetary and fiscal policies were to prevent high levels of unemployment. At the international level, fixed exchange rates and orderly trade arrangements were to prevent attempts by individual countries to export their unemployment to others.

The key event in designing the postwar economic architecture was the Bretton Woods Conference held in New Hampshire on July 1, 1944, while war was still raging. Keynes, along with Harry Dexter White from the US Treasury, led the conference. While the United States clearly was the dominant power, Keynes’ personal authority as the leading economist of his time conferred great weight to his views.

Though construction of the postwar economic and financial system began with the Bretton Woods Conference, the emergence of the environment that made it possible can be traced back to the end of the First World War. The participants at Bretton Woods were convinced that the primary cause of the Second World War had been the mismanagement of peace after the first war. The Treaty of Versailles had been a disaster, due especially to the lack of foresight in its economic provisions. Keynes, as one of the official representatives of the British Empire to the Supreme Economic Council that set out the terms of German reparations after World War I, had been outraged by the terms imposed on Germany, which betrayed a lack of understanding of international economic interdependence. He had resigned in protest and wrote his famous treatise *The Economic Consequences of the Peace* in 1919 to explain what was wrong with the terms of the peace. Many of those who were involved in designing what came to be called the Bretton Woods system thought that

it would not have been possible for Hitler to rise to power had it not been for popular resentment among Germans for the terms of peace imposed on their country, along with the 1920–23 hyperinflation that effectively destroyed the politically moderate German middle class. The value of the German mark, which was 14 per US dollar at the end of the war in 1919, reached 4 trillion per US dollar on November 20, 1923. Although Germany had recovered from that collapse by the second half of the 1920s, it left deep wounds that refused to heal.

The Great Depression made it clear that, in the absence of multilateral agreements and institutions, the international economic system was in danger of creating policies that led to misery and mass unemployment. The World Economic Conference in 1931 was an unsuccessful attempt to reform the international economic order, but it did serve to inspire Keynes. Comprehensive international institution building was also advanced as a way to counter Hitler.

In 1940, the German minister of economics and president of the Reichsbank, Walter Funk, proclaimed that a “new order” was on its way that would unify Europe and its colonies under German leadership. The British government, concerned about German propaganda, asked Keynes to discredit it. Keynes’ alternative vision was a completely new international system, and in 1942 the great economist and his associates in London prepared memoranda on the International Clearing Union, Plans for Relief and Reconstruction, and Commodity Buffer Stocks. These memoranda were the seeds of the Bretton Woods system.

Keynes’ initial idea for the first pillar of the system, the International Clearing Union, would later become the International Monetary Fund (IMF). His bold proposals included a World Central Bank and a global currency to maintain full employment equilibrium and provide liquidity. The American side was in favor of a much smaller monetary fund with a more modest role and more emphasis on conditionality attached to the use of fund resources. While the inspiration came from Keynes, it is essentially the American vision of the IMF that eventually prevailed at Bretton Woods.

The second pillar eventually emerged as the International Bank for Reconstruction and Development, commonly known as the World Bank. The origin of the idea lies in the notion of a European Construction Fund focused on the rebuilding of Europe, but the presence of developing countries in the negotiations led to additional emphasis on the “development” function of the new institution.

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The third proposed pillar, designed to help stabilize primary commodity prices and address trade issues, was the International Trade Organization (ITO). Although creation of the ITO was firmly supported at Bretton Woods, the proposal was brought to the US Congress when isolationism and anti-UN attitudes were on the rise. The effort to ratify the ITO was abandoned without even being put to a vote. Instead, the General Agreement on Trade and Tariffs (GATT) was signed in 1948. Under GATT, member nations generally agreed to accord no special trade status to any one member that was not accorded to all. GATT was a provisional legal agreement, not an international organization with permanent arrangements. It was not even close to what was envisioned by Keynes, but it did constitute a kind of third pillar concerned with trade, and eventually was transformed into today's World Trade Organization (WTO).

In many ways, this three-pillar system based on the IMF, the World Bank, and the WTO (GATT) has withstood the test of time in remarkable fashion. Today, six decades after the Bretton Woods Conference, the system still represents the core of international economic architecture.

From the beginning, the Bretton Woods institutions were created independently of the United Nations and its charter and set up with a governance that kept them out of the UN's organizational structure, even though they are, nominally, part of the UN system. The articles of agreements for the institutions were drafted in 1944 at the Bretton Woods Conference before the UN charter was approved. On December 31, 1945, governments with the required number of votes approved the Bretton Woods articles, and, after that approval, the United States called the first meeting of the Bretton Woods Governors held in Savannah, Georgia, in March 1946.

The UN institutional agreements were created by a parallel and separate process. The UN charter was approved at the San Francisco Conference in the summer of 1945 and ratified by the major powers and most other countries in November of the same year. The General Assembly and the Economic and Social Council (ECOSOC) had their first sessions in January 1946. The ECOSOC was created to coordinate the UN's economic and social programs, a number of subsidiary bodies, functional commissions, regional commissions, and specialized agencies.

The difference in the timing of the establishment of the ECOSOC and the Bretton Woods institutions made it difficult for the United Nations to firmly incorporate the latter under the UN umbrella. A letter from the ECOSOC president was sent to the Savannah conference and referred to the Bretton Woods executive directors, who were expected to meet in

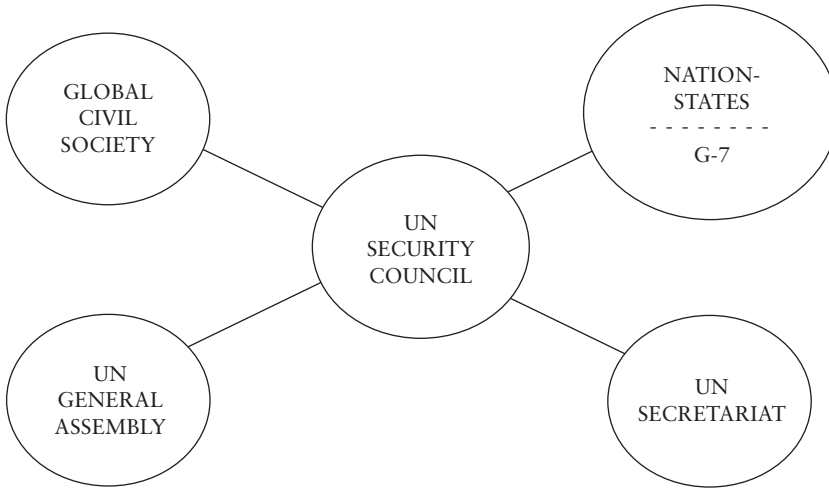
May. Both the Bretton Woods articles of agreement and the UN charter required that the two institutional structures cooperate.² A second letter from the UN then asked the Bretton Woods institutions to negotiate a formal agreement. However, the executive directors declined the offer, saying such action would be premature. Meanwhile, UN agreements had been completed with the International Labor Organization (ILO), the United Nations Educational, Scientific, and Cultural Organization (UNESCO), and the Food and Agriculture Organization (FAO). In late June 1946, the UN secretary-general asked Bretton Woods management whether discussions with the ECOSOC negotiating committee could begin in September. But World Bank and IMF representatives—fearing that political control or influence could hurt their institutions' reputation and credit ratings on Wall Street—responded that they could not sign an agreement similar to what was put forward by the United Nations.

It is clear that achieving this degree of independence from the UN would not have been possible if this position had not had the support of the United States. The ECOSOC and the Bretton Woods institutions finally reached an agreement in 1947 that declared the Bank and the IMF as specialized UN agencies. In substance, however, this agreement was a declaration of independence that required the Bretton Woods institutions only to give “due consideration” to UN recommendations on inclusion of items in their agendas. The IMF and the World Bank maintained independent budgetary and financial arrangements. The UN connection was limited to permitting UN representatives to attend meetings of the Board of Governors, and to the Bretton Woods institutions having liaison offices at the UN headquarters and participating in some meetings.

The Political and Economic Spheres

Figures 2.1 and 2.2, adapted from Richard Falk (2002), give a summary description of the international system as it operates today, which is not very different from the way it has operated during much of the postwar

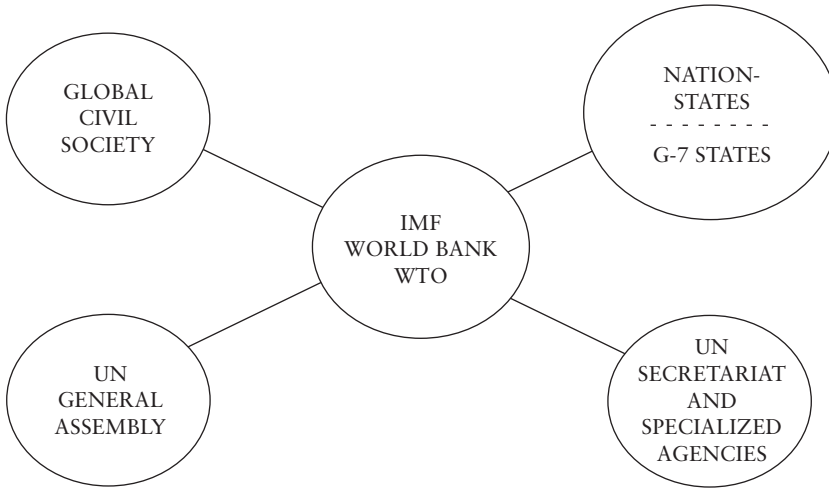
2. Article 5 required the World Bank to “give consideration to views and recommendations of competent international organizations.” The UN charter was more specific: Article 57 requires that the “various specialized agencies, established by intergovernmental agreement . . . shall be brought into relationship with the United Nations,” and that the UN “shall make recommendations for the coordination of the policies and activities of the specialized agencies.” Relevant articles of the charter authorize the ECOSOC to enter into agreements and coordinate with specialized agencies, make recommendations to them and obtain regular reports from them. See Mason and Asher (1973, 55).

Figure 2.1 *The political sphere*

Source: Adapted from Falk (2002).

period. There is a clear distinction between the political and security sphere (Figure 2.1) and the economic and social sphere (Figure 2.2). The UN Security Council is at the center of the security sphere. The entire system has operated in an environment in which the fabric of the official international community involved two superpowers—and since the 1990s, only one superpower—alongside medium-sized and small nation-states. The UN General Assembly brings those sovereign actors together and provides a forum for debate in plenary sessions and various committees and councils, but the General Assembly has no enforcement power. The system is formally managed by the United Nations Secretariat headed by the secretary-general. Figure 2.1 also draws attention to the role of global civil society, whose importance has increased tremendously in the last 15 years, its global reach and activities greatly facilitated by the Internet.

The major difference between the architecture of the political sphere and that of the economic sphere is that the Bretton Woods institutions and the WTO—organizations that are not really part of the UN system and have distinct governance—are at the center of the institutional set-up of the economic sphere. Although many special agencies in the UN system

Figure 2.2 *The economic sphere*

Source: Adapted from Falk (2002).

are active in the economic and social sphere—including such important entities as UNICEF, the ILO, UNESCO, the World Health Organization (WHO), the United Nations Development Program (UNDP), and the United Nations Conference on Trade and Development (UNCTAD)—these agencies are at the periphery of the institutional system, with the IMF, the World Bank, and the WTO at the center. It is through these latter institutions, or within the framework that they provide, that the most important decisions affecting economic matters are made and financial resources get allocated, with obvious consequences for social issues.

Just as in the case for the UN Security Council in the political sphere, it is the nation-states controlling and influencing the governance of these institutions that are the ultimate strategic decision makers in the economic and social sphere. The manner in which superpowers, other nation-states, and international organizations and bureaucracies interact to determine outcomes, however, is quite different in the two spheres. To move forward with reform it is important to understand the history and nature of these interactions and the situation as it exists at the beginning of the 21st century.

The Political Sphere

Although the military alliance that defeated the axis powers included the Soviet Union, within months of the final victory in 1945 the alliance ended and the world was divided into two increasingly antagonistic blocs, undermining the newly created United Nations and with it hopes for global governance based on cooperation within the legal framework of the UN system.

Cold War antagonism between the two blocs paralyzed the Security Council on many occasions. The council played virtually no role during the French and American wars in Vietnam or the Soviet invasions of Czechoslovakia and Hungary because either the US or Soviet veto could always make any such attempt futile. Between 1945 and 1975, the Soviet Union used its veto 114 times to block decisions that it perceived as working toward the objectives of the West. More than half of these vetoes concerned membership applications in the early 1950s. The United States, on the other hand, did not use its veto at all between 1946 and 1965 but used its veto 12 times between 1966 and 1975.

China was another big issue. After the Second World War, civil war erupted in China between the communists and the nationalists. The People's Republic of China was established following the victory of the communists in 1949, and the Chinese nationalists had to flee to the island of Taiwan. After 1950, the United States supported what was called the Nationalist Government on Taiwan, which continued to represent China in the Security Council. The People's Republic of China, allied with the Soviet Union, was not represented in the United Nations until 1971. The UN could respond to North Korea's invasion of South Korea in 1950 only because the Soviets had been boycotting the Security Council at that time with the objective of getting the People's Republic of China into the UN. During the 1970s and early 1980s, the Soviet Union joined newly independent countries to support self-determination for colonies, opposition to apartheid in South Africa, and the legitimization of the Palestine Liberation Organization. The United States used its veto many times to block resolutions directed at Israel.

With the fall of the Berlin Wall in 1989, the nature of the international system changed quite suddenly and dramatically. By the early 1990s, it was clear that the division of the world between the West and the Soviet bloc was over. Hope arose that a new international system based on

cooperation and international legality within the framework of the United Nations could replace the balance of nuclear terror of the Cold War, during which one bloc was always able to thwart the other by using its veto in the Security Council. Moreover, the West's relations with China had already improved in the 1980s as China had increasingly opened up to the global market economy. China continued to pursue national interests that often clashed with those of the Western powers over Taiwan and other matters such as nuclear proliferation, but by the late 1970s it had given up systemic antagonism to the West and any effort to export Chinese-style communism. In fact, China's socioeconomic system evolved into a mixture of state ownership and private entrepreneurship within an overall framework close to a market economy. In the 1990s, the Soviet Union imploded and its largest successor state, the Russian Federation, also ceased to be a systemic antagonist. In fact, going much further than China, Russia gave up the communist system altogether, both economically and politically. With some oversimplification, it can be claimed that, by the end of the 20th century, the transformation of China and what had been the Soviet Union transformed the "social-liberal synthesis" referred to in chapter 1 into a global synthesis and a common ideological ground shared by a large part of humanity.

It was not unreasonable to hope, therefore, that this ideological convergence would translate itself into a UN system based on broad consensus and cooperation, ending the divisions and obstruction that had characterized previous decades. This hope was strengthened by the fact that the new international order would benefit not only from the end of the Cold War but also from national ideologies that no longer sought territorial aggrandizement through conquest. In that sense, the world at the end of the 20th century was a very different one from that at the end of the 19th century, when colonial conquest and empire building were still very much part of the national policies of the major powers.

And in fact the international system at the eve of the millennium did not just revert from the bipolar world of the Cold War back to the 19th century world of balance-of-power politics—at least not ideologically. In the 1990s, the ideology of peace was much more strongly established in the world than it had been a hundred years earlier, influenced by the success of European integration, which had a decisive impact on strengthening the ideology of peace. Germany and France, which had fought each other without mercy for 150 years, now shared important elements of

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sovereignty, making war between them an unthinkable prospect. This remarkable achievement has had an impact much beyond the borders of the European Union.

Despite these very positive factors, however, progress in cooperative international governance has been much more limited during the last 15 years than hoped for at the time the Berlin Wall fell. Several sources of political tension have heightened considerably and negatively affected the international system. First, the 1990s witnessed an increase in domestic strife, civil wars, and states unable to maintain even limited cohesion and domestic governance. Second, terrorism in various forms became a much larger threat with the attacks of September 11, 2001, leading to a new threshold of horror followed by numerous attacks around the world underlining the global nature of this violent scourge. Finally, the United States adopted an increasingly unilateralist approach to international affairs, at least up until the fall of 2003, when the US administration somewhat moderated its stance and decided to make a greater effort to work with the United Nations on Iraq and proceed to the extent possible with the endorsement of the UN Security Council.

An even deeper reason behind the lack of progress in developing a new world order, however, is the fact that important parts of the architecture of the international system conceived in 1945 and developed during the Cold War no longer reflect international realities at the beginning of the 21st century. This mismatch has blocked reform and led to a vicious cycle of disappointment. In fact, prospects for more cohesive and collaborative global governance within the framework of a strengthened United Nations seemed worse at the beginning of the 21st century than in the early 1990s.

Domestic Strife, Failed States, and Terror

Political scientist Robert Jackson (1990) has defined post-colonial countries that have the juridical trappings of a modern nation-state without the ability to govern as “quasi-states.” In the 1990s, mainly due to the post-Cold War political vacuum, many quasi-states tumbled into further political chaos, trapped in violence and degenerating into failed states. The threat of civil war and possible disintegration looms around the world, from Haiti to Yugoslavia, Georgia, Sudan, Somalia, Congo, Liberia, Rwanda, Angola, Sierra Leone, Indonesia (East Timor, Aceh), and Sri Lanka. The degree of failure varies. When the central political authority is unable to maintain public security internally or externally, a state loses its control over the economic and political spheres—a condition described by

Zartman (1995) as “state collapse.” Somalia is a telling example. In other cases, the political authority of the state is rejected by large segments of the population, as occurred in Rwanda and Yugoslavia. Failed states pose a serious challenge to the international system. Should they be allowed to fail, or should they be rescued? While concern regarding the consequences of violating sovereignty is understandable, other considerations come into play. To quote Secretary-General Kofi Annan (2000), the three functions of the UN are to serve the member states, introduce new principles in relations among states, and serve the needs and hopes of people everywhere. The third function should not be interpreted just as moral idealism, however. Failing states pose a serious challenge to the entire international system, as borders cannot contain the instability, chaos, and violence they engender. Refugees, violence, and terrorism have become major threats to international peace and stability. The events of September 11 showed what a great danger the failed state of Afghanistan posed, although in itself it seemed remote, powerless, and ever so distant from the economic and political power centers of the world.

In a broader sense as well, September 11 was a great challenge to the conventional wisdom on security and terrorism. Up until then, the world had a very state-centric view of security—it was simply difficult to imagine nonstate groups being able to acquire the means to carry out large-scale terrorist acts. There had been relatively small-scale terrorism linked to extreme nationalist movements or regional conflicts, but nothing comparable to September 11.

The newer form of terrorism, however, did not start with the September 11 attacks. The past two decades have in fact seen a marked increase in the activity of terrorist groups very different in their ideology, tactics, and organization from what can be called the classical terrorist groups. The new groups have still had political aims, but they now claim a sacred legitimacy because their war is against the “corrupt” and the “evil.” Nor is the violence specifically aimed only at particular states or their representatives. Randomly chosen civilians have become targets, because the act of violence itself is an objective. Mary Kaldor (2003) uses the term “regressive globalization” to describe this type of terror movement, since these groups make extensive use of the very globalization they purport to hate.³

3. Also see Stern (2003) for an in-depth analysis of the psychological and social factors shaping terrorist actions.

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According to Kaldor, these groups arise as an extreme reaction to the insecurities generated by globalization, as well as disillusion with the secular ideologies of the state. At the same time, they make use of the opportunities created by globalization—the new media, especially television and the Internet, and increased opportunities for funding from diaspora as well as from transnational criminal groups.

The challenge to deal with the new type of terrorism is exacerbated by the fact that there are millions of angry, jobless, and young potential recruits willing to kill and die in search of martyrdom—with the suicide bomber representing the ultimate phase of alienation. Beyond just declaring war on terror, the international community will have to find a more comprehensive and sophisticated way to address the broader social economic issues at hand. Means must be found to address the root causes and social dynamics underlying the problems that lead to the spread of terror. Eradicating poverty will help reduce the number of potential terrorists, but perhaps even more important is to convince potential sympathizers that the world order can evolve towards greater equity and legitimacy and that change is possible with essentially peaceful means. There will always be a small hard core of extremists that cannot be reached by reason. To contain them, majorities all over the world must be on the side of peace. This requires winning hearts and minds with arguments for justice and a roadmap towards greater participation and equity.

US Unilateralism in the Age of Interdependence

The United States has always been ambivalent about multilateral engagement, not wanting to be tied down and constrained in its ability to act. On the one hand, much of the postwar international system was designed by and functioned with US support. On the other hand, the United States has mistrusted the system and has periodically been tempted to act outside it, relying on its military and financial power alone. In the period up to the Iraq War, this temptation grew stronger. Instead of using the opportunity presented by the collapse of the Soviet Union to strengthen multilateralism and global governance, the United States has been tempted to ensure its own dominance, with some even referring to the call of “empire.”⁴ There have been many examples of the new, more unilateralist stance of the United States.

4. The literature on the US “empire” is quite rich. See Ikenberry (2002), Bacevich (2002), Chomsky (2003), and Johnson (2000). Ikenberry (2004) reviews five different works examining contemporary US “imperialism.”

The major nuclear weapons treaties had been drawn up on the basis of a balance of forces between the United States and the Soviets. In the spring of 2002, US president George W. Bush denounced the 1972 antiballistic missile treaty (ABM), which ensured that missile defense systems would be limited to certain predetermined targets. Shortly thereafter, the number of warheads each side was allowed under the Strategic Arms Reduction Talks (START) was drastically increased.

In May 2003, the United States renounced its support for the treaty establishing the International Criminal Court (ICC) that was signed by 138 countries and ratified by 66. The countries that voted against the ICC were Libya, Iraq, China, Israel, and Qatar. Perhaps anticipating that the US Congress would not ratify the ICC treaty, President Bill Clinton noted when he signed it in 2000, that as a signatory, the United States could still negotiate the court's procedures, staffing, and budget. The Bush administration's main concern is that the treaty gives ICC judges too much power unchecked by the UN Security Council (where the United States has the veto), as well as jurisdiction over citizens of countries that have not ratified the treaty. US conservatives see the ICC as a threat to US sovereignty and freedom of action. President Bush's countermove to the ICC, the American Servicemen's Protection Act, not only bans US military aid to countries that ratified the ICC treaty, but also authorizes the president to use force to free American soldiers who might be arrested or transferred to the ICC for prosecution. The United States recently withheld military assistance from 35 democratic countries because of their resistance to bilateral immunity agreements that exempt US citizens from the first global court to try those accused of genocide, crimes against humanity, and war crimes. Also, on June 12, 2003, the Bush administration secured from the UN Security Council the renewal of a one-year exemption from ICC jurisdiction for American troops involved in UN-authorized military missions.

Although 136 countries signed and ratified the 1997 treaty banning landmines, the United States is still among the few countries that have not signed it. The Bush administration has been reviewing the country's landmine policy since 2001, but no agreement has yet been reached on how to proceed. It should be added, however, that the United States has not laid new mines and was the largest donor for the mine clearance program in 2002, contributing \$76.9 million.

The United States has proposed reopening talks on the treaty banning torture, which most likely will lead to abusive states watering it down.

Then-vice president Al Gore signed the Kyoto Protocol, but the Senate voted against it and President Clinton never submitted it to Congress. The Bush administration ruled it out from the start. Over time, the Kyoto Treaty was changed to make it easier for the United States to sign—several provisions were added that addressed US sensitivities—but US opposition has not budged.

There are, undoubtedly, arguments in defense of the US position concerning each of the examples cited above. However, none can refute the clear overall picture created by the cumulative refusal to buy into strengthened global governance. The fact remains that, after the fall of the Berlin Wall, the United States could have seized the opportunity to lead an effort to build stronger international institutions adapted to the new circumstances and with the ability to enforce international law. Instead, the United States saw these circumstances as an opportunity to augment its own power and try to exercise it as a traditional nation-state and superpower. The Clinton administration had been very cautiously multilateralist. The first George W. Bush administration clearly strengthened US unilateralism, making it explicit and ideological.

Joseph Stiglitz (2003, 231), recalling the period when he was chairman of the Council of Economic Advisors under the Clinton administration, summarizes his perception of a great missed opportunity: “The disappointment in how we managed globalization was all the greater because of what might have been. The end of the Cold War meant that the United States was the sole superpower—it was the dominant military and economic power. The world was looking to America for leadership. In my judgment, leadership means that one cannot try to shape the world simply to advance one’s own interests, and democratic leadership means that one advances one’s viewpoint by persuasion, not by bullying, by using threats of military or economic power. We had no vision of what kind of globalized world we wanted, and we weren’t sensitive enough about how what we wanted would be viewed by the rest of the world.”

The failure of the international system to function in the political sphere culminated during the Iraq crisis that unfolded in 2002 and 2003. Transatlantic relations reached their lowest point in decades, and a major military intervention again took place without a UN Security Council authorization. The absence of such an authorizing resolution in Iraq was due to strong resistance by world public opinion that influenced many governments, including nonpermanent members of the Security Council such as Mexico and Chile, as well as the clear opposition of

the governments of Germany, France, and Russia, which have veto powers. Nevertheless, the United States declared its intention to act as it saw fit, irrespective of the Security Council. France did the same in the opposite direction: President Jacques Chirac declared that France would veto an authorizing resolution before the weapons inspection route was exhausted even if world opinion and a majority in the Security Council shifted in favor of military intervention. Both the United States and France took a unilateralist stance, but under the present system, it could be argued that the US position was both “illegal” and unilateral, while France’s position was “legal”—it does have a legal veto power—but unilateral in that France did not feel compelled to seek a majority but rather would rely on its veto. This was the position taken by Russia during the Kosovo crisis, which at the time prevented the military intervention from gaining Security Council support, despite a large majority of states favoring intervention, and which in this case and in contrast to the case of Iraq had strong public support as well.

Thus, instead of bringing about a new world order based on cooperation and a significant strengthening of the role of international law, the end of the Cold War seems to have led, instead, to a kind of disintegration of the international system, a new type of disorder where failed states, terror, and local conflict create a general sense of insecurity that the military might of the United States is unable to overcome. The enlargement of the European Union has geographically extended the area of peace and stability toward the east, but in most other parts of the globe stability has not progressed. It is becoming increasingly clear that, if new catastrophes are to be avoided, terror and conflict will have to be counteracted by powerful and decisive actions aimed at eradicating the root causes of the problems that underlie it. The experience in Iraq to date suggests that essentially unilateral US action cannot succeed. What is needed not only in Iraq but in all of the trouble spots around the globe is concerted international action, with the United States and Europe working together, backed by a strong sense of legitimacy that can mobilize the support of public opinion and civil society and attract the sympathy of developing countries. The threats emanating from the Middle East, North Korea, most of Africa, and potentially parts of Latin America and the ex-Soviet Union are real and should not be underestimated, and point to the urgent need for an international political and security system. This system cannot be what is left over from 1945, but must instead reflect today’s realities and tomorrow’s challenges.

The Economic Sphere

During the months leading up to the Bretton Woods Conference in 1944, Harry Dexter White from the US Treasury spent a good deal of time convincing his colleagues in the US administration as well as representatives from major US allies that the Soviet Union and other socialist countries should be included in the building and functioning of the new economic architecture. Simultaneously, he was trying to convince the Soviets that it was in their interest to join the institutions designed at the conference. The Soviets participated in the Bretton Woods Conference negotiations, but in the end decided not to ratify the agreements. The Soviets were not happy with the offer to become only the third largest shareholder after the United States and the United Kingdom, especially since they would not hold a veto power as on the UN Security Council. Moreover, Bretton Woods membership required providing specific information that was beyond what the Soviets were willing to provide. In particular, information regarding gold production and transactions was regarded by the Soviets as a national security asset. The Soviets also demanded special support for reconstruction, since they had had to shoulder a major burden of the war. While their request that reconstruction be designated as the World Bank's priority was accepted, their proposal for a 20 to 50 percent reduction of the gold portion of the subscriptions in recognition of the "home areas having suffered from enemy occupation" was refused. As a concession, the IMF set an alternative date for determining the net level of gold holdings of war-damaged states.

In addition to these important technical details, the Soviets must have felt that they had little interest in the World Bank and IMF goal to enhance private trade. Although the articles of agreement of both the IMF and the Bank prohibited taking sides on the nature of a member country's economy, both institutions worked within a capitalist paradigm. At a UN General Assembly meeting in 1947, a Soviet representative charged that the Bretton Woods institutions were "branches of Wall Street" and that the World Bank was "subordinated to political purposes which make it the instrument of one great power" (Mason and Asher 1973, 29, 46).

Despite the Soviets' concerns, many believed they would nevertheless decide to join the system by the end of the Bretton Woods negotiations. The Soviets took the draft of the agreement to study and sat on it for quite a while, sending only an observatory delegation to Savannah. The Bank and the Fund extended their deadline by six months in the hope of

facilitating Soviet membership, but Cold War issues continuously increased Soviet antagonism toward the Bretton Woods sisters. The realization that these institutions would be independent from the UN further strengthened that antagonism.

The Berlin Blockade of 1948 and the communist victory in China in 1949 further restricted Bretton Woods membership. China was represented by the nationalist government on the island of Taiwan.⁵ Poland, an original member, was pressured by the Soviets to withdraw from the institutions in 1950. Another original member from the communist bloc, Czechoslovakia, was asked to withdraw for not being able to provide information needed to evaluate its exchange rate policy in 1954. Socialist but relatively independent, Yugoslavia remained a member of Bretton Woods throughout the Cold War. The rest of the Soviet-dominated Eastern European countries were not members. Romania and Vietnam joined the Bretton Woods institutions in 1972 and 1975, respectively.

The fall of the Berlin Wall and the collapse of the Soviet bloc had an immediate and unifying impact on the economic and social parts of the international governance system. As was the case for the political sphere, there were high hopes in the early 1990s that the end of the Cold War would lead to much improved cooperation and a strengthening of global governance in the economic sphere. Between 1990 and 1993, 25 Eastern European and Central Asian countries became members of the World Bank and the IMF,⁶ and by the turn of the century, the Bretton Woods institutions, for the first time, had become truly global institutions, with membership identical to that of the United Nations.

While the Bretton Woods Conference of July 1944 had produced the Articles of Agreement for the IMF and the agreement to create the World Bank, it took several more years to reach an international agreement on trade. The United States, the United Kingdom, and Canada had been the main actors discussing the guidelines of a new international trading system during the war years. In February 1946, the first session of the UN

5. Proper representation of China in the IMF did not occur until 1980, nine years after the United Nations' decision to recognize the People's Republic of China based in Beijing, rather than the Republic of China based in Taipei, as the government of China.

6. Bulgaria in 1990; Albania and Mongolia in 1991; Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Moldova, Russia, Turkmenistan, Ukraine, and Uzbekistan in 1992; and Bosnia-Herzegovina, Croatia, Czech Republic, Macedonia, Slovak Republic, Slovenia, Tajikistan, and Yugoslavia in 1993. Hungary and Poland had already become members in 1982 and 1986, respectively—see Boughton (2001, chapter 19) for more details on the history of their membership.

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Economic and Social Council (ECOSOC) established a preparatory committee made up of 18 countries to do the groundwork. In January 1948, 23 countries signed the General Agreement on Tariffs and Trade (GATT), which did not include investment, employment, or organizational provisions. Not for another 46 years, and only after seven and a half years of Uruguay Round negotiations, was the WTO created with the full legal status of an international organization. The Uruguay Round is considered the largest and the most complex negotiation in history, with 125 countries agreeing to its terms in consensus. At present, 146 countries are members of the WTO. China became a member in December 2001, while Russia is still negotiating its accession.

Just as the convergence of UN and Bretton Woods membership and the ideological thaw of the 1990s allowed greater cooperation between the UN system and the Bretton Woods institutions, the transformation of GATT into the WTO, as well as the disappearance of the communist bloc's Council for Mutual Economic Assistance (COMECON),⁷ brought trade issues and negotiations into a single and increasingly global framework.

Unfortunately, despite this progress in the international system's economic sphere, the world is still very far from a form of global economic and social governance that is considered both legitimate and effective by most citizens across the globe. Many people from São Paulo to Istanbul and from Seoul to Manila continue to view the IMF largely as a tool of rich countries and multinational businesses, rather than as an institution that works in their interest. Governments in emerging markets blame the IMF for the constraints on their budgets and for all kinds of policies and regulations, for which they refuse to take ownership. Micklethwait and Wooldridge (2003) report that during South Korea's economic crisis in 1997, a Korean television station ran a program about "IMF orphans," the program's description of children being brought up in state orphanages because their parents had either committed suicide or abandoned them in the wake of the crisis. This lack of legitimacy for the IMF is a major obstacle to successful implementation of Fund-backed economic programs, since it severely limits the domestic ownership that a program requires irrespective of its content and design.⁸

7. COMECON had a similar international status as the European Economic Community in design but was for countries under communist rule. Its main objective was to increase integration, mainly trade, between communist countries. After the dismantling of the Soviet Union, it was disbanded in 1991.

8. See Birdsall (2003) for a perceptive analysis of problems caused by insufficient ownership.

The challenge is not only one of perceived legitimacy, however. For a long time, the economic sphere of the international systems has suffered from massive problems of duplication between agencies, lack of coordination, and top-heavy management structures, giving rise to an image of an inefficient international bureaucracy. Much has been done over the past decade to improve coherence, coordination, and cooperation among multilateral economic organizations, as well as to make their internal functioning more efficient. James Wolfensohn, president of the World Bank Group since 1995, has made particular efforts to engage with UN agencies. There has also been substantial progress with regard to the poorest countries qualifying for international development funds within the new framework provided by the Poverty Reduction Strategy Papers launched in 1999.

Nonetheless, overall progress has been slow because of the nature of the international system, the fact that the UN agencies and the Bretton Woods sisters have divergent governance at the top, and the ongoing perception, and many would argue reality, of the Bretton Woods institutions' complete subordination to the Group of Seven (G-7). People in most countries do not accept an international economic system viewed as being run by the finance ministers and central bank governors of seven self-appointed wealthy countries that meet to decide the fate of the entire globe.

Finally, beyond process and perception is a real debate about the substance of the economic and social policies that have formed the basis of programs supported by the Bretton Woods institutions, including discussion on the theoretical foundations of IMF and World Bank policy prescriptions or policies pursued within the framework of the WTO. This debate should be conducted as part of the overall governance debate, since policy prescriptions are linked to governance. Some critics are extreme and use arguments that do not stand up to careful analysis, but others, such as highly regarded analytical economists Joseph Stiglitz and Dani Rodrik, are ideologically within the framework referred to earlier as the social-liberal synthesis. They accept the fundamental need for competitive markets, recognize the great potential benefits of free trade, and by no means advocate a return to central planning or autarchy. They stress, however, that both theory and empirical analysis show that market failure can be a serious problem, that there is nothing automatic about markets working well, and that there is scope for well-designed activist public policies much beyond what the Bretton Woods institutions have traditionally proposed, particularly during the conservative revolution of the administrations of Ronald Reagan and Margaret Thatcher. There is

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also a lively debate about the nature of optimal macroeconomic policies for indebted emerging-market economies and the functioning of international capital markets.

Any discussion of reforming the Bretton Woods institutions and the WTO must include not only these substantive policy issues but a focus on institutional and governance aspects as well. The chapters that follow outline the basic contours of a renewed international system in both the political and security sphere as well as the economic and social sphere. The objective is to improve both the legitimacy and the efficacy of the system. A United Nations adapted to the needs and realities of the 21st century should be the overall institutional setting for both the political and the economic sphere. Chapter 3 focuses on the political and security architecture and proposes new arrangements for the UN Security Council. The discussion of the Bretton Woods institutions in subsequent chapters focuses on economics and finance, as well as proposals for reform, while chapter 7 looks at the WTO and trade. The reforms advocated in this book for the institutional set-up as well as for the practice of policy may be considered radical, but they are quite feasible and compatible with the social and economic forces that are likely to shape the future in the medium term.

At the national level, recent decades have shown that performance is determined by the effectiveness of institutions and their interaction with cultural attitudes and economic policies. The same is true at the global level, where performance ultimately will depend on the quality of global institutions, the ideological atmosphere within which they function, and the nature of the policies that emerge from these interactions.