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Why Globalization Has Stalled

By Sebastian Mallaby
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A few years ago, anti-globalization rioters were clogging the streets, disrupting the meetings of the world's multilateral organizations. Today, something more serious is afoot. The protesters have mercifully vanished, but international institutions are in disarray. Anti-globalization may have lost its voice, but so has globalization.

Start with the breakdown of trade negotiations. In the wake of the terrorist attacks of 2001, the whole world agreed that rich countries should open up to poor exporters. But now the Doha Round of trade talks is virtually dead. This month's deadline for a breakthrough will be missed; the European Union has refused to offer serious cuts in farm tariffs, and the Bush administration has signaled that it's giving up by moving its trade czar to the budget office.

Now consider the International Monetary Fund. Critics from Tim Adams, the top international man at the Bush Treasury, to Mervyn King, the governor of the Bank of England, declare that the IMF needs to justify its existence by shaming currency manipulators, foremost among them China. This is tantamount to saying that the IMF should close down, since there's no chance whatsoever that the Chinese are going to change their currency policy just because the IMF tells them to. Meanwhile, Asians are dissing the IMF by building up foreign-currency reserves, rendering the IMF's backstop services unnecessary. Argentina and Brazil have paid back their IMF loans early, and the loss of these large interest-paying clients has driven the IMF into a budget crisis.

Then there's the World Bank, which is struggling to find its way under its president, Paul Wolfowitz. It's not that Wolfowitz has bad ideas; his focus on corruption is justified. But the new boss gives major policy speeches without bothering to seek input from the professionals on his staff, and he has alienated the board members who represent the bank's major national shareholders. As a result, donor governments are less inclined to launch aid initiatives with the bank's help. They are more likely to set up parallel structures, reinventing the wheel expensively.

The troubles at the IMF, World Bank and World Trade Organization are paradoxical. It's not that the underlying forces of globalization have gone limp; it's that nobody wants to invest political capital in global institutions. Trade is expanding, and bilateral trade deals sprout like weeds; but governments don't find the multilateral Doha talks to be a congenial setting in which to reduce tariffs. Equally, aid is expanding; but too much of the new money is flowing through uncoordinated bilateral channels rather than through the World Bank. International financial flows continue on a massive scale; but countries don't seem interested in sustaining the IMF in its historical role as the insurer against crises.

So trade liberalization has stalled, aid is less coherent than it should be and the next financial conflagration will be managed by an injured fireman. Yet the biggest costs of the indifference to

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multilateral institutions are military and political. Iran is busy going nuclear, and Sudan is orchestrating genocide. But the United Nations system is paralyzed in the face of both crises. Its member states are no more interested in working together than they are willing to make mutual trade concessions.

The same lethargy infects other bastions of political multilateralism. NATO has proved no more muscular on Darfur than the United Nations. The European Union has yet to recover from the rejection of its constitution by voters; cross-border business mergers in France, Italy and Spain face a thicket of nationalistic opposition. Meanwhile, because of the rise of China and other new players, the annual Group of Eight summits have lost their legitimacy. But proposals to redesign these gatherings get nowhere.

Fifteen years ago, there were hopes that the end of Cold War splits would allow international institutions to acquire a new cohesion. But the great powers of today are simply not interested in creating a resilient multilateral system. Europe is distracted by its economic malaise and by the challenge of building its own union. Japan has yet to translate its economic clout into political or military power. China's dictators care about keeping the lid on simmering unrest, not about helping to resolve global financial imbalances or Iran's nuclear crisis. India has huge potential as a Democratic superpower, but has only just begun to realize it.

The United States remains the only plausible quarterback for the multilateral system. But the Bush administration has alienated too many players to lead the team effectively. Its strident foreign policy started out as an understandable response to the fecklessness of other powers. But unilateralism has tragically backfired, destroying whatever slim chance there might have been of a workable multilateral alternative.

smallaby@washpost.com

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