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Introduction

The end of the Cold War and the accelerating globalization at first appeared to promise "peace and prosperity" for the 21st Century. However, these changes did not bring about "The End of the History" nor the world with the stable order; rather, they were the beginning of a new history with accelerating or intensified instability. The world lost a sense of direction, almost like "an airplane flying at a rising speed without clear destination," as Zbigniew Brzezinski has warned in "Out of Control" (1993). The world order has become destabilized. More conflicts have erupted since the end of the Cold War, compared to the Cold War times. Resistance against globalization and globalism has gained support as widening economic gaps have betrayed people's expectations for prosperity. Threats posed by terrorism, as we have seen in the event of the September 11 attacks, became widespread.

In Asia, the 1997 financial crisis robbed the self-confidence of the countries that had started to enjoy rapid economic growth and development, for which they once had been called "Asian Miracle." Michel Camdessus, then Managing Director of the International Monetary Fund (IMF), described it as "the first crisis of the 21st century." It is said that the strains caused by rapid globalization of monetary markets resulted in such a crisis.

The UN High Level Panel has identified "six clusters of threats" confronting the international community. Those are (1) economic and social threats, including poverty, infectious disease and environmental degradation; (2) Inter-state conflict; (3) Internal conflict, including civil war, genocide and other large-scale atrocities; (4) Nuclear, radiological, chemical and biological weapons; (5) terrorism; and (6) transnational organized crime. With the exception of the first cluster, these are all known as "non-traditional" threats. We may thus be able to describe the Asian financial crisis as a "non-traditional" crisis in the economic sphere.

Non-traditional threats have been increasing in its intensity in the areas of politics, security and economy since the 1990's. This is the realty that the international community now faces. To cope with these growing threats, we must carefully examine their nature, review and strengthen the functions of existing international institutions and organizations, and pursue an inclusive, comprehensive approach for mutual cooperation. The United Nations (UN) is not the only institution that requires reform. We need to review and improve the function of institutions such as the IMF, which remains entrenched within the Bretton Woods system, an institutional framework for the global economy established after the end of World War II; the World Bank; and the World Trade Organization (WTO), which succeeded the

General Agreement on Tariffs and Trade (GATT). We must urgently re-examine all of these institutions to ensure that they act in concert with one another in a manner adjusted to the changing reality.

A number of international institutions have done an excellent job in performing their respective roles for the past half century. However, economic and social situations across the globe that defined these roles have undergone fundamental changes. Therefore, the underpinnings of these institutions are now at risk; a risk that threatens to transform the 21st century into a period of anxiety and confrontation unless they redefine their appropriate roles, establishing new functions and administrative methods so that they can address the new challenges that the world now face. All systems are the product of the times. Any established system would quickly become ineffective if they fail to respond to the demands of a changing era.

1. Lessons learned from the 1997 Asian Crisis

The financial crisis that struck Thailand in the summer of 1997 had immediate repercussions in Indonesia and other countries in Southeast Asia. In December 1997, the crisis spread to South Korea, which had just joined the club of advanced nations, the Organization for Economic Cooperation and Development (OECD). This was followed, in August 1998, by the Russian crisis (i.e., default or nonfulfillment of debt obligation). The crisis spread throughout the world, finally reached Wall Street by way of Latin America from October to November 1998.

Observers at the time called this phenomenon “contagion.” The crisis spread from Thailand to other countries far more rapidly than many experts and international agencies, including the IMF, had expected. In the beginning, this urgent situation was limited to Thailand where the speculative investment overran the market. In other words, the crisis was viewed as a “Thai crisis.” Based on this view, the U.S. remained indifferent from the start. This indifference contrasted sharply with the country’s attitude at the time of a similar crisis in Mexico, the U.S.’s “backyard,” from 1994 to 1995. The U.S. disbursed no money at all to assist Thailand. In those days, the World Bank rated Indonesia as superior in the area of economic management. In my view, neither the World Bank nor the IMF suspected that the crisis in Thailand could spread to Indonesia. However, the waves generated by the crisis quickly engulfed Indonesia, which fell into a critical condition, much worse than that experienced by Thailand.

When the crisis hit South Korea, which is a “developed” country, many experts, particularly those in the United States, continued to blame “Asian crony capitalism for the problem. The perception that this crisis was in fact global, affecting the entire world economy (or global capitalism), became dominant only when the crisis reached Wall Street by bankrupted an influential American hedge fund.

Ironically, George Soros, a leading figure of hedge funds, was one of the first to assert that this emergent situation was the one that should be called “the crisis of global capitalism.” In his book “The Crisis of Global Capitalism” (1998), he argued that global financial crisis can be caused by the nature of the global capital that is electronically transacted in an overwhelming amount. He also argued that some sorts of regulations were required to avoid such a crisis happening.

After a while, it became the dominant view that fundamental changes in global economic structure had produced the crisis the IMF, as did the conclusion that these changes demanded a new architecture for the international monetary system. Discussions on these reforms still continue today.

The way that the IMF responded to the Asian crisis invited stark criticism. At the center of the accusation was the view that the IMF had made a diagnosis based on the “60 years old” economic model and issued an outdated prescription in disregard of the structural and qualitative changes that had taken place in the global economy. Critics noted that this prescription in face aggravated the Asian crisis, throwing Indonesia’s politics and economy into a critical condition. Malaysia rejected the IMF’s prescription and tightened its control over capital transactions. The IMF traditionally encourages capital liberalization and financial degradation as a basic policy. The IMF and the U.S. government, its de facto administrator, rebuked Malaysia strongly for its counter-liberalization measures. However, they began to adjust their positions as the problems with a “cyber” market of global capital entered the discussion and as Malaysia relaxed its restrictive measures after the critical stage had passed. The IMF is thus gradually revising its prescriptions, which are becoming more in agreement with current economic realities. However, the IMF also has argued that the institution’s policy has remained consistent and that it was the economic condition that had changed.

The bitterest critic of the IMF was Joseph E. Stiglitz, then Senior Vice President and Chief Economist of the World Bank, which is another pivotal organ of the Bretton Woods system. In “Globalization and its Discontents,” published in 2002, Stiglitz attacked the IMF, saying that in the Asian crisis, the IMF had become part of the problem, not part of the solution. Stiglitz went on to assert that the IMF had committed numerous errors, most tragically the one it made at the time of the Asian crisis. This blunder, he said, amounted to the biggest breach of faith in the IMF’s expertise. The IMF research bureau chief made a strong counterargument to this accusation. Stiglitz and the IMF chief engaged in an open dispute on the website, fueling a wider debate in public.

This dispute became, in part, an emotional one. The lesson was that the IMF did became incapable of responding to the advancement of monetary and capital markets that no one had anticipated when the institution was established: the birth of a global economy backed by capital and financial liberalization, the cyber transactions of money and capital through the Internet accelerated by revolutionary advancement of Information Technology, and the separation of the real economy from the money economy in response to these two fundamental changes.

2. The Washington Consensus and the Failure of the Asian Monetary Fund (AMF) Plan

At the time of the Asian crisis, Japan advanced a plan to establish the Asian Monetary Fund (AMF), and Asian version of the IMF. However, strong opposition from the IMF and the U.S. government effectively blocked this plan.

"The Day Japan and the World Shook: the Birth of Cyber Capitalism," an arguably untimely memoir by Eisuke Sakakibara, published in 2000, offers graphic particulars of this conflict. As the Deputy Vice Minister of Finance, Sakakibara played a central role in the Japanese government's effort to establish the AMF.

The AMF plan was the positions that Asian countries took. They concluded that (1) IMF prescriptions did not take the economic circumstances of Asian countries into full consideration and (2) the market economy and the concept of democracy (which is known as the Washington Consensus) that the IMF and the US tried to introduce uniformly throughout Asia could amplify the crisis. The idea was not for Asian countries to turn their backs on the IMF. The AMF plan was based on the idea that the IMF and the AMF would complement each other, where the former would act as a large hospital and the latter would perform the role of a personal doctor well familiar with the particular circumstances of the individual countries. The IMF and the US maintained in their official counterargument that the AMF would become an agency in potential conflict with the IMF, and that it would assist countries in crisis based on insufficient conditions, leading to potential risks for the countries themselves. However, this was not the only reason for their opposition. The true motive may simply have been the idea that any plan that obstructs US leadership was unacceptable. According to Sakakibara's memoirs, Lawrence Summers, then Deputy Secretary of the Treasury, made a midnight telephone call to the Sakakibara on a Saturday. And in the phone call lasing nearly for two hours, Summers tried to explain why the AMF initiative is not acceptable.

Stanley Fischer served as the IMF's First Deputy Managing Director at the time. In his 2004 book entitled "IMF Essays from a Time of Crisis," he acknowledged that the IMF must carry out organizational reforms if it was to remain effective. Nonetheless, he stressed that the US leadership was "indispensable" to the IMF.

3. China's Rise and the International Policy Coordination Mechanism

Exactly ten years have passed since the WTO replaced the GATT as an engine of the global economy. The WTO is the first global and multinational institution to take shape after the end of the Cold War. China's entrance into the WTO in 2001 was symbolic and historic in two ways: (1) this transformed the WTO into a genuinely global organization, and (2) China had now become part of the global economy.

However, certain WTO members began to distance themselves from the organization with China's entrance into the body. Mirroring the history of the UN, the WTO was experiencing a sharp increase in the number of member countries and regions. The number had grown dramatically beyond the membership of the GATT, forerunner to the WTO when the former was established. There are presently 148 WTO. This unwieldy number has rendered it difficult for the WTO to agree on any given issue. Coordinating member interests in the course of new rounds of multilateral commercial negotiations became a complex task. Negotiations showed little process. Given these circumstances, the umber of separate free trade agreements (FTAs) is increasing at an explosive pace. According to the WTO, there were a total of 114 FTAs in force worldwide with approximately 30 additional FTAs pending as of November 2004.

Many FTAs were said to supplement the WTO. However, an imbalance is clear when new WTO rounds of discussions yield no process, while FTAs continue to multiply. Professor Bhagwati of Columbia University, a strong free trade advocate and multilateralist, fears that the network of FTAs many turn into what he refers to as a "chaotic spaghetti bowl." Whether this will take place remains to be seen. We know that there is wide variation among FTAs. We also know that these agreements trend to discriminate against non-signatories. There is no guarantee that more FTAs will strengthen the WTO regime. There is also a real possibility that FTAs will apply the brakes to narrow-minded nationalism, which is arguably more dangerous than regionalism. However, international trade based on FTAs will become a destabilizing factor in the global economy if it forces countries to swim with this tide into poverty.

China is transforming itself into the "world's manufacturing factory" and now leads other countries in terms of global trade. The five major powers that materialized the Plaza Accord in September 1985 can no longer ignore China in currency adjustment and economic policy coordination. The Group of Seven (G7) industrialized countries invited their Chinese counterparts to a meeting of finance ministers and central bank governors for the first time in October 2004. However, they allowed the Chinese representatives to attend a dinner session only. Meanwhile, the US trade deficit is swelling to the record size. China is responsible for a quarter of this deficit. Nonetheless, the Chinese yuan remains pegged to the US dollar. This arrangement sets limits on US attempts to rectify the trade imbalance through foreign exchange adjustment. The G 7 thus reduces its capacity to coordinate policies - and even calls its very existence into question – by inviting China only to its dinner parties.

4. Comprehensive Cooperation among International Institutions

Investors have a voice in the IMF in proportion to their respective stakes, as in a publicly traded company. Needless to say, the U.S. is currently the largest IMF investor. The position gives the US, who is a veto exercising member of the UN Security Council, the same *de facto* veto power at the IMF. This system has become remote from global economic reality, just as the UN Security Council is in dire need of reform, having lost touch with the global security issues we see today. The IMF is unable to increase its capital or to ask China to supply funds in proportion to the latter's capacity to do so, due to a system that pegs member influence to proportionate stake. In spite of a shortage of funds that prevents it from playing its assigned role, the IMF cannot take either step, because both would require members to readjust their stakes and thus dilute their relative influence.

Stanley Fischer emphasized U.S. leadership in his book mentioned above. As he suggested, the US has no intention of abandoning its veto rights at the IMF. This U.S. position poses two dangers. The first danger is that the IMF will continue with a shortage of funds and lose its ability to operate effectively. The second danger results from a number of actions that the U.S., the largest IMF investor, may choose to take. For example, the U.S. may try to introduce the Washington Consensus, a cookie-cutter package consisting of the principles of free-market economy and democracy, to all nations. This sort of initiative could then spur the U.S. to adopt an even more unilateral approach to economic policy coordination.

Free-market economy and democracy can take many different forms in reality. However, the U.S. and the IMF attempted to liberalize the financial market in a rigid and uniform manner when the financial crisis struck Asia. This was one of the reasons why they failed to resolve the problem, at least in the early stages of the crisis. Both the U.S. and the IMF subsequently accepted the "sequencing" theory, which postulates that it is essential to have preconditions set for any new system to function smoothly and effectively. In principle, however, the IMF and the U.S. continue to adhere to what may be termed "market fundamentalism."

No system is perfect. Even the free market system in the U.S. was unable to prevent the Enron scandal.

Democracy embraces the same problem: it can not simply be copied in any country without proper adjustment. Successful democratization requires the tackling of many hurdles, such as conducting a fair election, collecting sufficient information for voters to choose candidates, and achieving transparency. During the U.S. presidential election in 2000, there was "the Florida Problem." Election results can also invite questions when less than 50 percent of voters cast a ballot. This "quorum issue" is seen in any ordinary decision-making process.

The world has experienced enormous economic, political, and social changes in the 60 years since the end of the World War II. The UN, the IMF, the World Bank, and various other international institutions and organizations must look at these changes objectively and pursue reforms accordingly. At the same time, those institutions and organizations must use all of their resources at their disposal to establish and strengthen a system of mutual cooperation.

When international agencies fail to perform their assigned roles, they call into question their ability to respond to the six clusters of threats confronting the international community identified by the UN High-Level Panel. This declining performance portends continued neglect of the poverty and economic imbalances that fuels terrorism and a host of other problems, and will allow anti-globalism to gather momentum, aggravating social stability in the process.

Globalization will continue. Anti-globalism, meanwhile, would be ironic if "current protects curtained the positive aspect of globalization while leaving the negative dimensions untouched," as Joseph S. Nye pointed out in "Globalization's Democracy Deficit," which appeared in the July/August 2001 issue of Foreign Affairs. Some of the negative dimensions of globalization are environmental pollution, transnational expansion of terrorist network, financial fluctuations, transnational organized crime, narcotics flow, and the spread of infectious diseases.

5. Sustainable Economic Development as a Means of Deterring Threats

"Sustainable economic development" is said to depend on "sustainable peace." The opposite is also true. We cannot confront poverty, environmental pollution, or terrorism with military power alone. Sadako Ogata, former UN High Commissioner for Refugees, stated in an interview in the January 3, 2005 edition of the Nihon Keizai Shinbun newspaper that "the US discovered the war in Iraq was not as easy as it had anticipated," adding that the country "prepared a sufficient war plan in advance, but it did not prepare a sufficient peace plan."

Economic stability and development are extremely important in any effort for conflict prevention. Cooperation among international organizations and the private sector (through initiatives such as the Global Compact) is essential if we are to realize the goal of sustainable growth established at the UN Millennium Summit in 2000.