



Citizen-Centered Approaches  
to State and Market



# An Agenda for Harnessing Globalization

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## An Agenda for Harnessing Globalization

Sixty years ago, U.S. policymakers confronted an unimaginable series of global crises. They saw the enormity of the task before them as “just a bit less formidable than that described in the first chapter of Genesis. That was to create a world out of chaos; ours, to create half a world, a free half, out of the same material without blowing the whole to pieces in the process. The wonder of it is how much was done.”<sup>1</sup> Articulating an inclusive vision of a democratic and prosperous order for friends and former foes alike, the U.S. government marshaled the imagination, resources, and stamina to spearhead the formation of institutions that brought democratic stability and prosperity to allies in Europe and Asia. The critical task now, however, is to articulate a vision for the entire world.

Globalization reveals the liberating potential of the market for generating unlimited wealth and its blindness as a mechanism for distributing the consequences of this wealth. If world prosperity and security depend on leading the process of globalization toward producing equal opportunity, then creating mechanisms through which all people can participate in global prosperity must move to the forefront of the international agenda. Without such a strategy, there is a risk that the current wave of globalization might fail, a risk that has not been sufficiently emphasized. The United Nations’ report of the High-Level Panel on Threats, Challenges and Change, for example, is silent about this risk.<sup>2</sup>

Although the possibilities of wealth creation have become truly limitless, four billion people are left out of the process and still deal with medieval standards of living. With the globalization of television, the images of the good life that people watch and to which they aspire are those of the middle

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and upper classes of Organization for Economic Cooperation and Development (OECD) countries. Expectations are now set in terms of global standards rather than national realities. The social compact reached in OECD countries that made stability possible in the mid-twentieth century, which invested in education for the young and safety nets for the old, disabled, and unemployed, is now under threat of being shattered by the failure to deal with the social debris of globalization.

**The failure to manage the first wave led to two world wars and the Great Depression.**

The 1990s saw the emergence of a rare consensus on democracy as the organizational form of governance and the market as the organizational form of the economy. This was a monumental shift after several hundred years of debate about authoritarianism and state-led paths of development. Yet, there are now increasing signs of dissent from Latin America to France to the current Maoist threat in Nepal and India, ranging from disenchantment

to outright rejection of the potential of market-based solutions to deal with inequality or protect the gains of the welfare state. Economics is global, but politics is national, making for a constant disconnect between what politicians judge to be feasible in the short term and what is necessary for collective well-being in the medium to long term. In reaction to globalization, issues are being defined reactively in national terms, resulting in a lose-lose proposition instead of harnessing and leading globalization toward global prosperity. The international regimes for dealing with intellectual property rights and management of international currency relationships, for example, are becoming increasingly contested. Some governments are either actively colluding with or outright protecting local industries that violate intellectual property rights, thereby requiring huge investments from global firms in protecting their brands.

The risks involved are not limited to the extreme case of the second collapse of globalization. Already, the criminalization of economies in many countries is perversely connected to globalization, enabling nimble criminal networks to take advantage of liberalization and deregulation.<sup>3</sup> Criminality is expanding as rapidly as the productive networks of globalization, and many people as well as governments have become enmeshed in networks dealing in illicit activities such as the transport of pirated software, money, drugs, prostitutes, and immigrants.<sup>4</sup> These global criminal networks connect easily into networks of terror.<sup>5</sup>

Just as there was in 1945, there is now an open historical moment that contains the opportunity for ordered liberty or the threat of descent into prolonged crisis. Today, there is a need for new rules regarding the state, the market, and global institutions to respond to the challenges of globalization.

## Lessons from the First Wave

Globalization is a spontaneous form of order.<sup>6</sup> Such orders, being “results of human action but not of human design,”<sup>7</sup> cause immense uncertainty regarding the future. The incessant destruction of old relations and the incessant creation of new relations are the only constants in such an emerging order.<sup>8</sup> It is little wonder therefore that the net and the edge, drawing on chaos and complexity theories, are the symbols of the new economy, while Max Weber’s conception of the bureaucracy was the pervading symbol of industrial capitalism.<sup>9</sup>

As both the game and the playing field are formed and altered without an agreed-on script, reliance on successful past strategies can prove disastrous. In the case of global corporations, the pattern through which winners become losers has been clearly demonstrated.<sup>10</sup> If corporations, with their firm focus on profit, can misread the signs at times of rapid change, then the possibility of misperceptions on the part of national and international bureaucracies, which are even less nimble and value adherence to routinized rules, is even greater. The task of building effective states and functioning markets in the context of a spontaneous order is indeed formidable.

The pace of globalization is unprecedented, but the phenomenon itself is not new. The United Kingdom was not only the first workshop of the world but the center of a process of global economic integration that began in the 1850s. This first wave of globalization was called the cosmo-political economy, which German thinkers contrasted to the national school of the economy.<sup>11</sup> The failure to manage the tension between the national and global led to two world wars and the Great Depression. Resort to force became common, as conquest of territory was seen as key to national economic survival and prosperity. Although some analysts may retrospectively see the empires of 1875–1914 as the Golden Age of Security,<sup>12</sup> it was the very phenomenon of imperialism that has left in its wake the legacy of race, class, gender, and nation as dominant categories of oppositional identities. The period of 1914–1945 has been characterized as the European Civil War and the Asian Civil War,<sup>13</sup> with untold suffering and loss of life inflicted across the world.

Presented with an opportunity at Versailles to find solutions to the tensions that had led to World War I, European leaders framed the issue in terms of narrow national gain and loss rather than designing collective institutions that would channel the energies of different nations in new directions. As John Maynard Keynes presciently pointed out in *The Economic Consequences of the Peace*, the seeds of the destructive future struggle were sown at the Versailles conference.<sup>14</sup> In the absence of collective solutions to the Great Depression, countries sought their own solutions, mobilizing people around the categories of race and nation. Totalistic ideologies, from communism to

fascism and nazism, became the fashion, requiring all aspects of the economy and society to be organized by the state.

By contrast, at the end of World War II, U.S. policymakers in partnership with their European counterparts seized the opportunity and marshaled their imaginations to create new collective institutions. They acted decisively and consistently to harness energies to the long-term project of creating an

**Around 40–60 countries are suffering from a sovereignty deficit.**

open society and functioning market economy in OECD countries. At the time, critics considered the democratization projects of Germany or Japan or alleviation of the pervasive hunger, deprivation, and destruction across Europe to be pipe dreams. Yet, these leaders had the commitment to a sufficient time horizon to see the project through. At the same time, they laid the foundation for global institutions, including the UN, the Bretton Woods system, and the World

Trade Organization (WTO)/General Agreement on Tariffs and Trade, as well as for regional institutions such as NATO and the European Community, which succeeded in creating dynamic economies out of ruins.

Their agenda of creating global prosperity and security, however, was subverted by the Cold War and was thus rendered incomplete. The USSR did not join the World Bank or the International Monetary Fund (IMF) and repeatedly used its veto power at the UN. For countries that fell outside the OECD, the oversimplified Cold War categorization of countries as being either for or against the struggle against communism led to the indiscriminate support of dictatorships. These regimes were bent on denying their citizens voice and participation, leaving the debris of failed states and failed markets in many parts of the world.

The first wave of globalization ended in a zero-sum game because it depended on extracting raw materials, which necessitated the control of territories. The current second wave, however, offers the possibility of unbounded wealth creation through human ingenuity that becomes transformed into financial capital. The task now is to promote the formation of a global middle class that would be the ultimate guarantor of global stability by leading the process of globalization toward an inclusive agenda. Expanded opportunities at “the bottom of the pyramid”<sup>15</sup> will turn the poor into stakeholders, buoyed by the prospects of opportunity and upward social mobility, just as the social tensions of the OECD countries in the nineteenth century were resolved through the expansion of large middle classes in the twentieth century. Unlike the post–World War II period, the challenge today is not the availability of money, as the aid, civil society, and private-sector flows are quite considerable. Instead, the challenge is

to arrive at a vision for a global set of rules and organizations that would promote worldwide stability and prosperity.

## **Renewal, Not Destruction**

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A spontaneous, emerging global order will probably produce crisis if left unguided. As long as world leaders react to the process rather than lead it, the prism of the past through which they view events will likely lead to recourse to old competitive solutions that exacerbate the situation, rather than to novel cooperative solutions. Finding cooperative solutions, however, requires power to be defined as collective rather than redistributive.<sup>16</sup>

Countries are understandably sensitive about sovereignty. Nevertheless, the UN High-Level Panel on Threats, Challenges, and Change argues that “capable and responsible States must be on the front line in combating today’s threats.”<sup>17</sup> The report expresses the emerging consensus that sovereignty entails not only the rights but also the duties of statehood. Citizens are not the property of the state, to be used and abused according to the old Roman law notion, but bearers of rights, bound by obligations defined in the law. Simultaneously, the state, as the legal and political unit of the international system, has rights and obligations toward other states and international organizations, as well as other persons and entities with which it has entered into agreements. Viewed from the perspective of this double compact with its citizens, on one hand, and other states, international organizations, and persons, on the other, the state is increasingly enmeshed in a network of shared sovereignty.<sup>18</sup>

Acknowledgement of the concept of networked sovereignty as the operating principle of the international system could be the key to renewing international organizations. The 40–60 countries that constitute the arc of crisis in the international system suffer from a sovereignty deficit, if sovereignty is defined by the roles, including a functioning market, that a modern state is to perform for its citizens and the international system. The example of Europe has demonstrated that shared sovereignty can be the mechanism for overcoming centuries of nationalist conflict through regional cooperation and the construction of new institutions.

There are no merely national solutions to today’s challenges, yet after 60 years, the global institutions designed to deal with the critical tasks they faced in 1945 are increasingly displaying the limits of their capability for dealing with today’s challenges. Lack of trust in the UN system, including the Bretton Woods institutions, is at its height. The IMF suffers from the dogmatic conceit of an elitist priesthood, the World Bank from a mismatch between its lofty goals and its lack of capacity for implementation, and the UN is afflicted by perceptions of corruption, politicization, inadequate representation, and ineffectiveness.

Part of the problem arises from the conditions of their genesis. As organizations conceived at a time when states were dominant, they lack the mechanisms to deal with nonstate actors. This problem is structural. Reflecting the conditions in 1945, when there was widespread skepticism regarding the constructive role of the market, there is no international organization focused on market building. Although the meetings of the UN General Assembly and the World Bank–IMF annual meetings provide a forum for

**The issue of sub-national governance in the BRIC alliance requires novel thinking.**

government leaders to meet, there is no official mechanism for bringing together global corporations and government leaders to deal with market building in a sustained manner. Forums such as the Davos gatherings serve a useful function in this regard. Despite constant innovations in financial instruments, including insurance and risk-guarantee instruments, investment by reputable corporations in risky countries remain

underdeveloped. In general, the convening power of the global and regional institutions for focusing sustained attention on urgent problems is underused. Strategic use of convening power can easily transform these organizations into interlinked networks.<sup>19</sup>

The problem is also organizational. As bureaucracies, these organizations have become inward looking and operate in a stovepipe formation. The problem is not physical distance; the World Bank and the IMF, which are located on the same street in Washington, often operate in splendid isolation from each other. The coordination and division of labor is therefore a problem, both at the global and the country level. The modality of work is equally problematic, as these organizations have huge concentrations of staff at their headquarters who take periodic “missions” to countries to supervise complex policies or projects. The organizational culture favors short-term focus and reliance on cookie-cutter solutions rather than the commitment and problem-solving capabilities required for long-term sustainable delivery. The absence of transparent criteria for selecting the leaders of the UN and the Bretton Woods system also makes it difficult for these organizations to have the moral authority that comes from merit-based selection alone.

Underlying the loss of trust is the perceived failure of these organizations to provide solutions to the urgent problems of our time. The stalled discussions of the Doha round of trade liberalization negotiations are depriving the world of the benefit of legal trade. While governments bicker, criminal networks strengthen their stranglehold over the lives of hundreds of millions of people. The failure of the IMF to offer credible advice on the East Asian crisis of 1998 has posed fundamental questions regarding its relevance and

the rigid adherence of its staff to established dogma. The perceived failure of the Bretton Woods institutions to become catalysts for inclusive growth in Latin America or for any sustained growth in Africa over the last two decades are increasingly being taken as a sign that these organizations do not have the agility and organizational capability to offer relevant and timely solutions. The failure of the UN to stop genocide in Rwanda or ethnocide in the Balkans, the oil-for-food scandal, and the perception that agencies are deeply politicized also call into question the effectiveness of the system. The failure of the bilateral aid system to deliver on promises of reconstruction in country after country after the expenditure of billions of dollars likewise calls into question its efficacy. The loss of trust in governments and citizens of donor countries is matched by a corresponding lack of trust in the governments of the supposed beneficiaries.

The answer to fixing these problems, however, rests in renewing rather than destroying global institutions. The central fact remains that if these organizations did not exist, they would have to be created; or to put it more directly, because these organizations are failing, they need to be resuscitated and reinvented. Therefore, the task is to invest in a process of renewing the existing organizations and creating new ones aligned to the delivery of global public goods. These could provide the imaginative leadership and organizationally flexible responses demanded by today's unprecedented challenges, dangers, and opportunities.

## **An Agenda for Action**

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The United States has the distinction and good fortune of having had several waves of wise people define its course in critical times. The founding fathers translated their ideas into institutions. The wise men of the 1940s had the foresight to know that they were present at a scene of creation, as well as the wisdom to act on their conviction that ordered liberty and prosperity could be brought to half the world. It is now time that American idealism and pragmatism should be harnessed to renew the whole world. This can best be done by investing in collective solutions through global institutions.

Five issues should receive particular attention to provide necessary global institutions with sufficient rules, accountabilities, resources, and moral support by states in general and the United States in particular to tackle today's global security challenges. They are to build better states and markets in the 40–60 countries that are the weak links of the international system; develop strategies and partnerships tailored to Brazil, Russia, India, and China, also known as the BRIC alliance, and other large countries such as Indonesia, Mexico, and South Africa; bring corporations into a global developmental compact; rethink relations between regional and international security as



well as political organizations; and create mechanisms to invest in national, regional, and international leadership and management.

### **STATE BUILDING AND MARKET BUILDING IN THE ARC OF CRISIS**

Around 40–60 countries are suffering from a sovereignty deficit, with governments that are failing to perform the basic functions of modern statehood.<sup>20</sup> An even larger number of countries suffer from market failure, where bad laws and corrupt officials erect barriers against the acquisition of secure assets and property by the poor, forcing millions of people into the informal and criminal economies.<sup>21</sup> The formal categories of state, market, and civil society are overridden by rent-seeking elites that collude to prevent the mechanisms for wealth creation that could provide paths of upward social mobility. Dealing with this challenge requires a focus on state building and market building as the objectives of a renewed international political, aid, and security system. As both the growing and stalled economies of Asia demonstrate, building functioning states and markets can make the world secure and prosperous.

Once this goal is accepted, the mechanism will need to change to a double compact between governments and the international community on one hand and their citizens on the other for the state and market to perform their functions. The mechanism of accountability must be credible and transparent. Mobilization of domestic revenue through wealth generation provides the basis of a mutually reinforcing regime of rights and obligations and an exit strategy from the aid system. Implementing this goal will require shifting from yearly budget-allocation cycles dictating donor strategies to 10- to 20-year plans that have sufficient time to work. At the same time, citizens' participation in decisionmaking processes through carefully sequenced programs would transform the government from an alien force over them into the collective political and legal instrument to help realize their goals. Such mechanisms of trust and accountability cannot be established if the resources of the aid system are not channeled through the government and instead are used to create unaccountable, parallel, nongovernmental systems and processes.

### **STRATEGIES AND PARTNERSHIPS TAILORED TO THE BRIC ALLIANCE**

Framing the rise of the BRIC group in terms of threats rather than opportunities is likely to delay the search for securing the consensus of these and other large countries, such as Indonesia, Mexico, and South Africa, on collective solutions to global threats. Because more than 2.5 billion people live in these four countries, their stability and prosperity should be construed as a global public good. Equally, the risk of an economic slowdown or crisis in

these countries could have catastrophic consequences for reducing poverty, managing migration, and maintaining the consensus on market-led mechanisms of growth. Although 245 million people are expected to join the Asian labor force in the next 10 years, almost 1.9 billion Asians still live on less than \$2 a day.

Long-term sustainable strategies of growth that can reduce the substantial internal inequalities in these countries and maintain the economic as well as political consensus that ensures their constructive role in regional and global issues must be considered. Given their size, the issue of sub-national governance in these countries is one of the most significant developmental challenges and requires novel thinking. Given the weight of their economies, these countries can become magnets for regional growth by aligning trade and investment regimes. The creation of mechanisms through which they can become active participants and protectors of intellectual property rights regimes is likely to be the key to significantly reducing the criminal networks that otherwise arise. International financial institutions could become major catalysts in these processes if they were to rethink their modalities for dealing with these countries imaginatively. An enhanced role for these countries in international security, political, and economic organizations could help them reach collective solutions.

**Corporations, not states, have the dominant role in defining today's world economy.**

### **A GLOBAL DEVELOPMENTAL COMPACT FOR CORPORATIONS**

A world system composed of states as its basic units, reflecting the reality of 1945, must come to terms with the dominant role of corporations in defining the current world economy. As economic opportunities are defined by the degree of incorporation into the supply chains of global corporations, not by wrangling over the rules governing national economies in the WTO,<sup>22</sup> it is necessary to create organized fora for interaction between global corporations and states. In a world where capital has become more mobile but labor movement is increasingly restricted in the wake of the September 11 attacks, the contributions to be made by corporations to global stability cannot be confined to charity or an individualized sense of corporate responsibility. The more significant role that these organizations can play is to help create global, functioning markets and devise solutions for making workers effective stakeholders in the global system. If the largest injustice to the poor is their exclusion from the market, finding market-based solutions to the problem of inequality is urgent. The visible hand of the market, through instruments such as risk insurance, venture funds,

microfinance, and management training, could do much more than the aid system. Aligning new technologies to local processes could enfranchise hundreds of millions into the global system.

What gives urgency to engaging the wealth-creating private sector is the legacy of most of the world's rent-seeking private sector, particularly extractive industries and the technical-assistance industry. Extractive industries pose an especially important challenge, as firms in this sector have a history of elective affinities with despots and of promoting corruption. Citizens of most mineral-producing developing countries across Africa, the Middle East, and even Latin America have no information on the revenue provided by international firms to their governments, as such revenues are usually off budget and deposited in personal accounts. Particularly in areas that have been scenes of intense human rights violations, these industries have made the market a source of discrimination and exploitation rather than a mechanism for liberating human potential. The demand for raw material in the BRIC group, along with the emergence of extractive-industry firms from them, the Middle East, and Asia, can result in a new scramble for Africa, Central Asia, or other mineral- or fuel-rich developing regions. If extractive industries are not brought within the rules of transparency and accountability, redistributive struggles are likely to exacerbate existing conflicts or lead to new conflicts in fragile states. The injection of \$4 billion a year in technical assistance to position 100,000 expatriates in African states has yielded no visible change in the quality of governance, while higher education in Africa is suffering from lack of funding.<sup>23</sup>

### **RETHINKING RELATIONS BETWEEN SECURITY AND POLITICAL ORGANIZATIONS**

As the situations in Afghanistan and Iraq demonstrate, a substantial new business has developed around security, where Western firms are contracted to provide private security for developmental projects and private enterprise, training and employing thousands of young men on short-term contracts in the use of violence. The implications of such short-term measures for long-term stability have not been thought through. As we are learning, individuals trained in the art of violence can easily become mercenaries or participants in networks of terror and violence. It is much cheaper and more effective to provide security for a nation through its national institutions than with international forces or private security firms. The Cold War lesson that creating repressive security regimes cannot maintain the support of populations demonstrates the need for investment in security institutions, particularly police forces, that earn the trust of the population.

Such institutions can best be created within a framework of the rule of law. Future peace agreements therefore need to be framed within the overall

objective of establishing the rule of law. Both by mandate and comparative advantage, the UN must play the leading role in the process of mediation, arbitration, and international intervention. For example, the contrast in the legitimacy of the postintervention processes in Afghanistan, where the UN mediated a political process in which *de jure* sovereignty remained with the Afghan political authorities, and Iraq, where the coalition assumed sovereignty and later tried to engineer a political process to return sovereignty to the Iraqi authorities, is clear. Although there is no substitute for the UN as the international political broker and avenue of collective decisionmaking, the role of UN agencies requires systematic reexamination to revise their functions, funding modalities, and skill sets to acquire the ability to be catalysts to enhance government capabilities. Because all decisions for containing violence require a legitimate instrument for the use of violence, the international mechanisms for making such forces available requires serious attention. NATO's recent move to Afghanistan could be the harbinger of such a process. Deployment, however, must create the space for a legitimate political process and not be the end in itself.

**Because these organizations are failing, they need to be both resuscitated and reinvented.**

### **CREATING MECHANISMS FOR INVESTMENT IN LEADERSHIP AND MANAGEMENT**

Leadership and management are clearly the critical ingredients for the success of any endeavor. Capable people are needed in positions of authority to lead in the face of uncertainty and manage flexibly, in contrast to the task of managing fixed, hierarchical structures of the Industrial Age. Renewal of any institution requires a credible leadership team that can inspire confidence and provide a sense to its stakeholders that there is a road map ahead. The emergence of national elites with mindsets and values that are pro-poor and oriented toward structural stability will be critical to global stability. Investing in institutions and fora that would develop and deepen cross-cutting ties among leaders and managers at the regional, national, and local levels can be a critical mechanism in responding to the likely challenges and crises of a spontaneously generated order.

As human capital is the key to upward social mobility and economic opportunity, the institutions and networks of learning from primary to tertiary levels must become the vehicles for participation in the modern economy. The revolution in information technology enables cooperation across the world that has previously been unthinkable. The key is to create the right al-

liances that would bring cumulative learning and knowledge to hundreds of millions of aspiring young people.

## Uses of Power

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The case for renewing global institutions to rise to the challenge of leading globalization is urgent. Moving from concepts to actions in each of these areas requires the capabilities of global and regional institutions to be committed to this project. The modality of change, however, can be either gradual or radical. Gradual change will require marshaling coalitions for reform one at a time, with the hope that the coming crisis will not erode the gains. Radical

**Without such a strategy, there is a risk that the current wave of globalization might fail.**

change will require putting in place a global, blue-ribbon commission that has the caliber and imagination of the people who created the global institutions in 1945, then building the global consensus for implementing their recommendations credibly. Were such a commission to be formed, they should have the mandate at the outset to propose transparent criteria for selecting the leadership of these organizations. They should also have criteria for defining the mandate, focus, modalities of

coordination, funding, and staff recruitment and establishing mechanisms of mutual accountability and risk sharing with governments.

Thucydides argued that politics is “the arena where conscience and power meet, and will be meeting until the end of time.”<sup>24</sup> As power is neither inherently good nor evil, the key question is the type of politics that could marshal its use for a strategy of ensuring global security and prosperity. The UN high-level panel has made a compelling case that global threats have no boundaries, are interconnected, and are beyond the capacity of a single state to manage and also that some states may not be willing or able to fulfill their domestic or international responsibilities.<sup>25</sup> Consequently, “collective strategies, collective institutions and a sense of collective responsibility are indispensable.”<sup>26</sup>

History and theory show that marshaling collective power has resulted in an increase in the size of the pie for all players, while redistributive approaches have been accompanied by acrimonious debates, immobility, and covert and open conflicts. Having had the wisdom to put in place the collective arrangements that brought ordered freedom and prosperity to half of the world, the United States has the opportunity, as Richard Haass has argued, to renew the whole world and the most to lose from failing to solve global threats.<sup>27</sup> Where the limits to the use of military force have clearly been

manifested, power can now most usefully be generated through imagination and collective endeavor. Therefore, this is a unique moment for the United States to use its convening power to lead the renewal of the existing global institutions and to fashion a consensus for forming new collective institutional arrangements.

Such a renewal, however, must go beyond integration around currently perceived U.S. interests alone and should offer a compelling vision of making the whole world stakeholders and, thereby, defenders of collective security. Such a vision and its credible implementation are prerequisites for dealing with persistent conflicts that raise the specter of the clash of civilizations. If this specter is not to become a self-fulfilling prophecy, then the first step is investing in credible global institutions.

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