

IMF and World Bank members must stop rise of economic non-order

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Forthcoming meetings offer critical opportunity to start serious discussion on rebuilding global consensus

Donald Trump and Angela Merkel. The US's inward turn leaves the world order without a main conductor.

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Next month, when finance ministers and central bank governors from more than 180 countries gather in Washington DC for the annual meetings of the International Monetary Fund and the [World Bank](#), they will confront a global economic order under increasing strain. Having failed to deliver the inclusive economic prosperity of which it is capable, that order is subject to growing doubts – and mounting challenges. Barring a course correction, the risks that today's order will yield to a world economic non-order will only intensify.

The current international economic order, spearheaded by the United States and its allies after the second world war, is underpinned by multilateral institutions, including the IMF and the World Bank. These institutions were designed to crystallise member countries' obligations, and they embodied a set of best economic-policy practices that evolved into what became known as the "Washington consensus."

That consensus was rooted in an economic paradigm that aimed to promote win-win interactions among countries, emphasising trade liberalisation, relatively unrestricted cross-border capital flows, free-market pricing and domestic deregulation. All of this stood in stark contrast to what developed behind the iron curtain and in China over the first half of the postwar period.

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For several decades, the western-led international order functioned well, helping to deliver prosperity and relative financial stability. Then it was shaken by a series of financial shocks that culminated in the 2008 global financial crisis, which triggered cascading economic failures that pushed the world to the edge of a devastating multiyear depression. It was the most severe economic breakdown since the great depression of the 1930s.

But the crisis did not appear out of nowhere to challenge a healthy economic order. On the contrary, the evolution of the global order had long been outpaced by structural economic changes on the ground, with multilateral governance institutions taking too long to recognise fully the significance of financial-sector developments and their impact on the real economy, or to make adequate room for emerging economies.

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For example, governance structures, including voting power, correspond better to the economic realities of yesterday than to those of today and tomorrow. And nationality, rather than merit, still is the dominant guide for the appointment of these institutions' leaders, with top positions still reserved for European and US citizens.

The destabilising consequences of this obstinate failure to reform sufficiently multilateral governance have been compounded by China's struggle to reconcile its domestic priorities with its global economic responsibilities as the world's second-largest economy. Several other countries, particularly among the advanced economies, have also failed to transform their domestic policies to account for changes to economic relationships resulting from globalisation, liberalisation and deregulation.

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As a result of all of this, the balance of winners and losers has become increasingly extreme and more difficult to manage, not just economically, but also politically and socially. With too many people feeling marginalized, forgotten and dispossessed – and angry at the leaders and institutions that

have allowed this to happen – domestic policy pressure has intensified, causing countries to turn inward.

This tendency is reflected in recent challenges to several features of the economic order, such as the North American Free Trade Agreement, as well as the US's withdrawal from the Trans-Pacific Partnership and the UK's renunciation of EU membership. All are casting a shadow on the future of the global economic system.

The US's inward turn, already under way for several years, has been particularly consequential, because it leaves the world order without a main conductor. With no other country or group of countries anywhere close to being in a position to carry the baton, the emergence of what the political scientist Ian Bremmer has called a "[G-Zero era](#)" becomes a lot more probable.

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China is responding to the global system's weakening core by accelerating its efforts to build small networks, including around the traditional western-dominated power structures. This has included the establishment of the Asian Infrastructure Investment Bank, the proliferation of bilateral payments agreements, and the pursuit of the "belt and road initiative" to build infrastructure linking China with western Asia, Europe and Africa.

These dynamics are stoking trade tensions and raising the risk of economic fragmentation. If this trend continues, the global economic and financial configuration will become increasingly unstable, amplifying geopolitical and security threats at a time when better cross-border coordination is vital to address threats from non-state actors and disruptive regimes, such as North Korea. Over time, the risks associated with this shift toward a global economic non-order could have severe adverse effects on geopolitics and national security.

None of this is new. Yet year after year, top government officials at the IMF/World Bank annual meetings fail to address it. This year is likely to be no different. Instead of discussing concrete steps to slow and reverse the march toward a global economic non-order, officials will probably welcome the cyclical uptick in global growth and urge member countries to do more to remove structural impediments to faster, more durable, and more inclusive growth.

While understandable, that isn't good enough. The forthcoming meetings offer a critical opportunity to start a serious discussion of how to arrest the lose-lose dynamics that have been gaining traction in the global economy. The longer it takes for the seeds of reform to be sown, the less likely they will be to take root – and the higher the probability that a lose-lose world economic non-order will emerge.