

International order after the financial crisis

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How is international order built, and how is its legitimacy established, in a world in which political and economic foundations are rapidly shifting? The geography of power is being transformed, in particular by the rise of China. What are the consequences of the rise of major new powers for the structure and the functioning of the international system? In the past, seismic changes, associated with great wars or great financial crises, led to a disorientation about the moral foundations of society, domestically and internationally; led to confusion and uncertainty about values, not just in a technical sense (can we believe in gold as money, in the pound sterling, in the US dollar?) but also in a broader sense: What is the best way of ordering an economy, a society, or a polity? How can policies be legitimated?

An international order is not just an exercise in power projection. It is also built around a set of ideas. We often like to think of past versions of order as generated by particular countries which propagated a grand vision: for example, the nineteenth-century British view of John Bright or Richard Cobden about the universal beneficence of commerce, or the universalization of an American vision of commercial prosperity in the second half of the twentieth century. But even visionary international orders do not last for ever. Some events or dates—1688, 1776, 1789, 1914—mark an epochal shift. We are now at one such great historical caesura. What historians will call the ‘long twentieth century’ ended not with the terrorist attacks of 2001 but with the financial crisis that started in 2007.

One particular historical example offers a powerful analogy to the current transition of economic leadership and also political power. Great Britain’s economic position took a bad tumble in the financial crisis of 1931, when the pound was taken off the gold standard, but it was only some 25 years later that the full implications for power politics were really felt. In 1956, the humiliating fiasco of the Suez crisis combined military incompetence and failure with vulnerability to financial pressure, and marked the end of Britain’s claims to be an arbiter of the international order.¹ The response in Britain was deep dismay about the shape

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¹ Diane B. Kunz, *The economic diplomacy of the Suez crisis* (Chapel Hill: University of North Carolina Press, 1991). Barry Eichengreen, *Exorbitant privilege: the rise and fall of the dollar and the future of the international monetary system* (New York: Oxford University Press, 2011), also presents Suez as the critical moment in the collapse of a currency and a claim to leadership.

of and the values embodied in the new world order. Many people, on both the right and the left, bitterly disliked the new American hegemon and the principles for which it stood. The right disliked the brash meritocracy of a new commercial culture, while the left took exception to the social and racial inequalities of American society. The combination of these reservations permeated British society and the British policy-making elite. A typical example is the entire lack of surprise on the part of everyone in the British Foreign Office at the deep and unconcealed anti-Americanism of the head of its North American Department, the Soviet spy Kim Philby.²

There is an obvious parallel between Great Britain at the time of Suez and the travails of the United States after the 2003 invasion of Iraq and its confusion at the prospect of a shift in the geography of economic influence and political power. Moreover, the parallels have become even closer in the aftermath of the ill-prepared and politically divisive intervention in Libya. The American right dislikes the thought of triumph accruing to the Chinese communist regime; businesses fear the erosion of their competitive position; the left dislikes the new inequalities generated by low-wage Chinese producers and of course also the threat to American jobs. And Americans in general—whether on the right or the left—do not like authoritarian regimes. They are, in short, suspicious of both the power and the ideas of potential new hegemon. It is astonishing how ubiquitous the assumption has become in Washington that China is necessarily and ineluctably the antagonist. It is this assumption that has pushed some very prominent American economists, notably Paul Krugman, Alan Blinder and Larry Summers, to express scepticism about globalization, which they no longer see as working to the benefit of Americans. And Americans are hearing the echoes of another crisis: the financial and economic disaster of the 1930s that brought about the transition from a world built around the *pax Britannica* to one based on the so-called *pax Americana* of the late twentieth century. Seeing how that transition of the mid-twentieth century was understood may help us grapple with the challenges of our currently unstable world order.

Two alternative and deeply contrasting diagnoses of the previous power transition, that of the interwar period, were given by the realist E. H. Carr and by the economist and liberal Charles Kindleberger. One was pessimistic about the possibility of an institutionalized order; the other cautiously optimistic. Together they form a point of departure for the analysis presented in this article, for—as I will show—neither was completely convincing, but neither was self-evidently absurd. In the 1920s and 1930s, the transition was highly conflictual and disruptive. Understanding the lessons derived from that transition can help us identify the conditions in which the transition we face at present might be less brutal and destructive.

² Andrew Boyle, *The climate of treason* (London: Hutchinson, 1980).

I

Carr was above all a creature of the 1930s. The two events of his era that struck Carr with the greatest force were the collapse of conventional *laissez-faire* economics with the Great Depression, and the failure of institutionalized liberal internationalism in the shape of Woodrow Wilson's Covenant and the League of Nations. These two events were, in Carr's view, intricately associated and connected with each other. In particular, the economic catastrophe of the Great Depression moulded politics in a new way that showed the bankruptcy of traditional liberalism both in the economic sphere (*laissez-faire*) and in politics. He saw in consequence an urgent need to move beyond the discredited theories of the world before 1914, and he reached the conclusion that 'the assumptions of nineteenth century liberalism are in fact untenable'.³

The tendency of modern industry was towards the concentration of production and ownership, because the factory system required large amounts of capital, and economies of scale produced inevitable advantages for the owners of large sums of capital and of large industrial enterprises. Large enterprises in most countries enhanced their power through cartels, which usually depended on some measure of trade protection (as they would otherwise be undercut and undermined by foreign competitors). Cartels and trusts influenced states, and political power became the tool of economic interests. The law of economic concentration, or of increased polarization, looked very much like Marx's nineteenth-century prediction of increased immiseration, with a pauperized proletariat facing highly concentrated industrial ownership.

Carr's originality lay in the way he translated this rather familiar notion of an iron law in which economic power became more concentrated into a theory of international relations. Carr saw a parallel between the spheres, in that (in his view) both the capitalist process of production and the international system rested ultimately not on a law based on precepts of morality but on brute force. Such observations seemed appropriate ones to make in the context of the interwar world. The liberal trading regime of the nineteenth century had been briefly restored in the 1920s, but then collapsed, apparently irredeemably, with the Great Depression. States strove for national self-sufficiency, or autarky, and the result increased the importance of power in the international economy. 'In modern conditions the artificial promotion of some degree of autarky is a necessary condition of orderly social existence. Autarky is, however, not only a social necessity, but an instrument of political power.' Trade wars and economic struggles became a locus for power politics. Indeed, in the 1930s Carr saw a substitution of the economic weapon for military weapons.⁴

Since in Carr's view interstate relations are fundamentally about power, the law of concentration applied in that context with the same inexorable logic as it did in the domain of economics. Big units would have an inevitable advantage

³ E. H. Carr, *The twenty years' crisis 1919–1939: an introduction to the study of international relations* (London: Macmillan, 1939), p. 53.

⁴ Carr, *Twenty years' crisis*, pp. 155, 164.

over smaller states. In the world that Carr observed, 'there is a clearly marked trend towards integration and the formation of ever larger political and economic units'.⁵ Thus he shared the economist John Maynard Keynes's contempt for the allegedly artificial new and small states created in the 1919 Paris peace treaties, in part in the attempt to apply the doctrine of national self-determination. He interpreted reality as lying in the accumulation of power by the big states, and in particular the states that had been left out of the making of Versailles and the other Paris treaties, namely Germany and Soviet Russia.

The application of the theory that the world was moving towards power blocs based on the big states led directly to the most notoriously problematic part of the first edition of Carr's greatest theoretical work, *The twenty years' crisis*, namely his defence of the rationale behind the 1938 Munich agreement in which four big powers, Britain, France, Germany and Italy, had produced a solution to the Czechoslovak 'question' (without consulting the Czechs). Carr thought that Munich 'corresponded both to a change in the European equilibrium of forces and to accepted canons of international morality'.⁶

In Carr's view, just as the western powers mobilized opinion by talking about democracy, so the new powers of the 1930s had their own legitimating story, based on the simple logic of power, which seemed to him as valid (or as invalid) as those presented by any other states. The language of human rights for him was nothing more than a rhetorical weapon, which could be and was used as effectively by the new states, which tried to present the liberation of the proletariat as a universal cause, or the defence of the rights of German-speaking ethnic minorities in central European states as an equally general issue. There existed no valid external criteria for ascertaining whether an action was legitimate or not. For, in each case, the rhetoric was nothing more than a figleaf for the exercise of power. The new leaders, Hitler, Mussolini and Stalin, who more explicitly emphasized power, were actually in Carr's view just being more honest.

Politicians who did not, or pretended not to, see the necessity of the new dynamic were thus necessarily either obtuse or dishonest, and Carr shared fully Keynes's dismal view of the dangers of Woodrow Wilson's idealism. His book, indeed, goes well beyond Keynes's famous polemic of 1919 and includes a perverse attempt to show the fundamental similarity between the crusading idealism of Wilson and of Adolf Hitler.⁷ International relations were thus necessarily and permanently conflictual, and experiments such as the League of Nations (or later the United Nations) were doomed to failure. 'It seems no longer possible to create an apparent harmony of interests at the expense of somebody else. The conflict can no longer be spirited away.'⁸

Carr's resulting doctrine was unappealing even at the time, though it must have struck a powerful chord with many who reacted against what they saw as

⁵ Carr, *Twenty years' crisis*, p. 293.

⁶ Carr, *Twenty years' crisis*, p. 282.

⁷ Carr, *Twenty years' crisis*, p. 300.

⁸ Carr, *Twenty years' crisis*, p. 297.

shallow moralistic posturing, and though it seemed also to reflect the new realities of the age of Stalin and Hitler. At the beginning of the twenty-first century, we are better placed to see that the features Carr observed and then recast as iron laws are actually not so permanent as he thought. At the beginning and end of the twentieth century, economic processes depended much more on competition than Carr supposed. And when the international economy was once more open, it was no longer so clear that all the advantages lay with big concentrations of power.

II

The winners of late twentieth-century globalization and the beneficiaries of a worldwide shift to liberalization were the small states: Taiwan, Singapore, Hong Kong, New Zealand, Chile, Ireland, Finland, Estonia, Slovenia. Why? In the first instance, small states are generally quicker and better at economic liberalization. In a small-state setting, imposition of a dense network of controls is likely to lead to the loss of mobile factors of production, while in a large state it is harder for labour or capital to escape. Large states are thus inclined to control, while correspondingly small states are likely to be quicker in opening up their labour markets, as well as in reducing rates of taxation on capital. Not only do they do deregulation more effectively; paradoxically they also manage social protection better. Public resources can be used to compensate the losers in the globalization process, and thus to make it acceptable to a broad political audience. This model, pioneered by Scandinavian countries since the 1970s, and especially effectively in the 1990s, has rightly become a widely admired European ideal.

There are also powerful political economy arguments about why smaller countries should be better at adapting economically.⁹ In a globalized world, small states are able more easily to see where there is a comparative advantage, and to devote resources to that sector without a big competitive push and pull from other sectors for favours from the state. Thus, to take perhaps the best-known examples, Taiwan can pursue the development of electronic goods, Finland mobile telephony and Switzerland financial services. These countries have all developed global leadership positions in their respective specialisms and are acutely aware of the need to remain competitive, not in a national but in an international framework.

In debates about international order, the small states are—as they were in the interwar world too—the natural proponents of an overarching supranational as well as international order that might protect their interests but might also represent a general interest.

The late twentieth-century shift in advantage to the small state was not a permanent one, and—perhaps already since the turn of the millennium—we can see Carr's logic at work again, with advantages falling to powerful and populous states (China, Russia, the United States) that can dominate or manipulate markets in energy or other scarce commodities. The previous winning national sectors,

⁹ See Alberto Alesina and Enrico Spolaore, *The size of nations* (Cambridge, MA: MIT Press, 2003).

such as Swiss banking or Finnish mobile telephony, look vulnerable because they are not backed by political power. By contrast, big states, like big banks, have come out of the financial crisis looking stronger.

III

The swing back to a world in which the advantage lies with the strong, who can muster large concentrations of economic and demographic resources, was already visible before the 2007 financial crisis. It has become much more evident since then. It was enunciated in Europe, rather brutally, by Germany's Chancellor Angela Merkel on 19 May 2010, when she laid out the conditions for aid to Greece in the crisis of that spring. She stated that 'the rules must not be oriented toward the weak, but toward the strong. That is a hard message. But it is an economic necessity.'¹⁰ On the global scene, we are now becoming obsessed with the BRICs (Brazil, Russia, India, China) as new giants.¹¹ The continuation of the crisis will turn them into Big Really Imperial Countries. The future of globalization is thus one in which power politics rather than markets will drive events. That makes for competition, rather than cooperation, or what Gideon Rachman calls a zero-sum view in a world of anxiety replacing a win-win mindset in an age of optimism.¹²

The rapidity not only of China's growth but of the recalculation of its growth rate has been stunning. The past 20 years of Chinese development constitute the longest period of the highest rate of sustained economic growth in the economic history of the world. The date at which China is predicted to overtake the US is constantly being revised. In 2003 the original Goldman Sachs report estimated that it would be 2041; by 2007, before the severe financial crisis, that was revised to 2027; and after the financial crisis, *The Economist* presented a calculation that showed 2019 as the date.¹³ But if the appropriate measure is not GDP converted at market exchange rates, but GDP expressed in purchasing power parity (which may be a better measure of the extent of a society's resources), China may already (according to some calculations) have overtaken the US.¹⁴

The recent news that China has surpassed Japan as the world's second largest economy in GDP terms thus did not come as a surprise. Japan is a big economy within a small state, with all the aversion to the practical exercise of power that characterizes second- and third-tier states. By contrast, China has always been about greatness. The accelerated push of China to Great Power status is the major geopolitical outcome of the Great Recession of the early twenty-first century. That outcome carries economic hope but political fear.

¹⁰ Speech in the Bundestag, 19 May 2010, <http://dipbt.bundestag.de/dip21/btp/17/17042.pdf>, accessed 10 Jan. 2011.

¹¹ For the origin of the term BRICs, see *Building global economic BRICs* (New York: Goldman Sachs, Nov. 2001); *Dreaming with the BRICs* (New York: Goldman Sachs, Oct. 2003).

¹² See Gideon Rachman, *Zero-sum future: American power in an age of anxiety* (New York: Simon & Schuster, 2011).

¹³ *BRICs and beyond* (New York: Goldman Sachs, 2007); 'Dating game: when will China overtake America?', *The Economist*, 16 Dec. 2010; see also John Ross's blog, <http://ablog.typepad.com/keytrendinglobalisation/2011/02/the-central-date-for-china.html>, accessed 10 Jan. 2011.

¹⁴ Arvind Subramanian, 'Is China already number one? New GDP estimates', Peterson Institute for International Economics, <http://www.piie.com/realtime/?p=1935>, accessed 22 Feb. 2011.

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First, the good news about the new role of China, which lies on the economic side of the case: alongside better monetary policy and more flexible exchange rates between the big industrial blocs, the response of China (along with other big emerging market economies) to the world financial crisis is the central reason why the financial turbulence that emanated from the US subprime crisis did not completely destroy the world economy and lead to a repeat of the 1930s Great Depression.

In a famous analysis of the Great Depression, Charles Kindleberger argued that it arose out of a failure of world leadership.¹⁵ Great Britain had been the hegemonic power of the nineteenth century, but its creditor status had been severely eroded by the cost of fighting the First World War. By contrast, the United States had emerged from the conflict as the world's largest creditor, but it had a double vulnerability. Its financial system was unstable and prone to panics, and its political system was immature and prone to populism and nativism.

In the Depression, according to Kindleberger, the United States should have provided an open market to foreign goods. Instead, the Smoot Hawley tariff closed off American markets and provoked other countries into a spiral of retaliatory measures.¹⁶ US financial institutions should have continued to lend to distressed borrowers, in order to prevent a spiral in which the unavailability of finance forced price reductions and intensified the process of world deflation. Instead, the US banks were widely blamed for the international lending in the boom that had preceded the bust. They became so intimidated by the ferocious political criticism that they were weakened and the flow of American credit stopped.

After the Second World War, as a leading figure in developing the Marshall Plan, Kindleberger set about applying these lessons, advising that the US should keep its markets and its flow of funds open to support other countries. He then generalized the experience into a theory of how a benign large power could potentially align its interests with the whole world community by keeping trade and financial markets open.

How different the twenty-first century looks from the Depression story! It is as if the Chinese leadership were 'A' students in one of Kindleberger's courses. Throughout the crisis, the Chinese economy continued to grow at an amazing pace, in part as a consequence of large state countercyclical strategies. When anyone wants an example of how a Keynesian strategy can be highly effective in the short term, internationally as well as domestically, they should look at China's 4 trillion renminbi stimulus. Prime Minister Wen Jinbao spoke of the package as 'an important engine for the world economic recovery'.¹⁷

Apart from the six months following collapse in September 2008 of Lehman Brothers, in which trade finance stopped and the world did look as if it was close to Great Depression circumstances, China, with other emerging markets, helped those industrial economies with a strong export sector to recover. The surprising

¹⁵ Charles P. Kindleberger, *The world in depression 1929–1939*, 2nd edn (Berkeley: University of California Press, 1986).

¹⁶ Douglas Irwin, *Peddling protectionism: Smoot-Hawley and the Great Depression* (Princeton, NJ: Princeton University Press, 2011).

¹⁷ Wen Jinbao, speech at Summer Davos, 13 Sept. 2010, http://www.gov.cn/english/2010-09/13/content_1701807_2.htm, accessed 10 Jan. 2011.

strength of many northern European economies today, with more vigorous growth than at any time in the past 15 years, is due to the dynamism of emerging market demand. Demand is strong not only for investment goods, engineering products and machine tools, but also for luxury consumer products. The German high-end automobile producers are now operating at full capacity. China will account for between a fifth and a quarter of global growth this year.

China also followed Kindleberger's financial lessons. For a moment it looked as if a contagious crisis, driven by fears of government overindebtedness, would destroy the politically fragile compromise that European countries had delicately built over a 50-year period. The turning point in the euro-panic of spring 2011 came when the big holders of reserve currencies signalled that they saw the need for the euro as an alternative to both the increasingly problematic dollar and the equally vulnerable yen. China started to buy EU government bonds, and a high-profile Chinese team even went to Greece to buy not government paper but real assets that were underpriced because of the crisis.

It was not just Europe that benefited from the Chinese willingness to take on the mantle of lender of last resort. The new-found dynamism of African economies is a consequence of the Chinese drive to build up and secure sources of raw materials and minerals. Within the space of a few years a new model of development has emerged, and it is a profound contrast with the type propagated for decades—rather unsuccessfully—by the World Bank.

In the longer term the fallout from China's stimulus may be mixed. Stabilizing the world economy will not be a costless process, any more than it was for the US in the second half of the twentieth century. The holding of dollar assets, which probably constitute around two-thirds of China's current US\$2.7 trillion reserves, is likely to produce a major book loss for the People's Bank of China. The domestic stimulus package, which delivered a massive underpinning of the world economy in the financial crisis, and also started a rectification of the global imbalances, will have problematic repercussions. As well as public subsidies, largely for infrastructure projects, the Chinese stimulus involved a vast expansion of bank loans (some US\$1.5 trillion), which may eventually become a major problem for China's banks. No less an authority than Prime Minister Wen Jinbao recently stated: 'In case of China, there is a lack of balance, coordination and sustainability in the economic development. The main problems include the unreasonable economic structure, weak capabilities for scientific and technological innovation, rising resources and environmental constraints, uneven urban-rural and regional development and lack of coordination between economic and social development.'¹⁸ In the longer run, China will become obsessed with the challenge posed by an ageing population. Thus already, at an early point in its rise to pre-eminence, China is likely to be concerned about the sustainability of its position.¹⁹

¹⁸ Arthur Waldron, 'The rise of China, how substantial?', lecture at Tokyo University, 8 Nov. 2010; Wen Jinbao, speech at Summer Davos, 13 Sept. 2010.

¹⁹ For the sceptical literature on China's emergence, see Susan Shirk, *China: fragile superpower* (Oxford and New York: Oxford University Press, 2007); Yasheng Huan, *Capitalism with Chinese characteristics: entrepreneurship and the state* (Cambridge and New York: Cambridge University Press, 2008).

IV

China's emerging pre-eminence also runs into another kind of obstacle. There is a fundamental problem with Kindleberger's argument about benign and beneficent order that Kindleberger himself, a very kind and well-meaning man, could never see. Kindleberger did not like the use of the term 'hegemony' and explained: 'I prefer to think of it as responsibility. Hegemony may, however, be more realistic as well as more cynical.'²⁰ Every behaviour in international politics is complex, and neither its motivation nor the interpretation by others is entirely simple. Selfish calculations may be dressed up as benevolence. It is never clear whether a state is a far-sighted leader or a cynically exploitative hegemon. In consequence, the world is never really very grateful to the country that saved it. Being a hero, a rescuer or a hegemon is fundamentally a thankless task: and it provokes resentment.

In addition, the beneficent effects of China's engagement in the world economy are felt much more powerfully at greater geographical distances from China. In that sense also there is a parallel with the story of the United States, whose leadership was felt much more positively in Europe during the great postwar boom than it was in Canada, Mexico or Central America.

It is consequently not surprising that the most persistent and strongest ideological opponent of the American way of life was not in distant Europe or Asia, but less than 100 miles off the Florida coast: Cuba. Since the early twentieth century Mexicans have felt worried and threatened by American strength. In just the same way Taiwan and also Vietnam fear that they will be the first victims of a new Chinese giant.

The global leader has never been loved by its neighbours. But the US gradually and very imperfectly built up trust through multilateral institutions, in particular by engaging Europe in a defence alliance, as well as by providing assistance through institutions such as the OEEC/OECD and the IMF. But Europeans, too, did surprisingly well at reconciliation with their neighbours after the Second World War, in part because the obviously malign and evil conditions of Nazi rule made it necessary to talk about the past in terms of moral categories rather than in terms of power politics.

By contrast with the American engagement in multilateralism, or the European search for reconciliation through a plethora of common institutions, power politics is much more a part of the Asian legacy of the twentieth century. China is not only a grade 'A' student of Kindleberger but also does very well on E. H. Carr's course. Long before anyone thought of China as a new economic superpower, it was clear that it occupied a position analogous to that of the revisionist powers, Germany and the Soviet Union, in the 1930s. As Hedley Bull put it in a retrospective commentary on Carr in 1969, China was the only challenger which had 'the power to make the world aware of its demands'.²¹

The real challenge for China's leaders will be to develop a coherent view of the world that does not scare its neighbours—and others. The Chinese dilemma

²⁰ Kindleberger, *World in depression*, p. 289.

²¹ Hedley Bull, 'The twenty years' crisis thirty years on', *International Journal* 24: 4, 1969, p. 636.

today is not unlike the American one of the mid-twentieth century. How can a new superpower maintain and extend its power in a world playing by commercial rules? Its effectiveness as a concentration of power, its sustainability as a state, its ability to satisfy domestic claims: all depend on an open world economy. There are high costs if other states try to close themselves off, and openness cannot be achieved simply at gunpoint.

In the 1930s, the United States did not stabilize the world economy, and did not have a vision of the global order: that only evolved in the 1940s and later, and in response to the very fundamental challenges to human liberty and human dignity posed by Hitler and then by Stalin. International Relations scholars have emphasized the extent to which international rules can be a way of externalizing domestic preferences, a way of embedding a liberal order or of 'tying one's hands' that produces long-term benefits for domestic politics in defining an arena in which choices can be made. The fact that the political system of the leading country is open and decentralized is bolstered by the international order; and it also acts as a guarantee to other powers that they have a mechanism for advocacy of their own interests.²²

China in the 2000s has contributed to a stabilization of the world economy, but there is absolutely no sign that it is evolving a vision of a new global order that goes beyond 幸灾乐祸 (*xìng zāi lè huò*) or *Schadenfreude* that the conventional platitudes of liberal and democratic politics and economics are collapsing.

In the postwar era, the United States tried to educate the rest of the world in the principles of progress and prosperity through the work of powerful foundations. Generations of European policy-makers as well as academics were galvanized by the Carnegie, Ford and Rockefeller foundations. American popular culture inspired imitators, and made for a protest movement whose effects could be contained and taken into the mainstream. Bob Dylan made the American way of life acceptable even to those who were repelled by naked military or economic power. China is certainly taking some leaves out of the American book, as China Radio International in Kenya increases its daily output while Radio Free Europe / Radio Liberty (not to mention the BBC World Service) falls victim to budget cuts. But it is hard to see China pushing and the rest of the world accepting the intellectual world of a Lenovo Foundation or the singing of Zhou Bichang as a way of warding off the resentments engendered by the new emerging market-driven globalization. China will need to look for another path. Yesterday's globalization was thought of as Americanization, the imposition of mindless consumerism; today's globalization is already being thought of as Chinafication, the spread of low-wage production.

The old multilateral mechanisms for international policy coordination, which reflected a fundamentally American view of the world, are being torn apart by disputes over China's current account surplus and currency regime. The fallout from these arguments is wrecking those international coordination mechanisms

²² See G. John Ikenberry, *After victory: institutions, strategic restraint, and the rebuilding of order after major wars* (Princeton, NJ: Princeton University Press, 2001), esp. pp. 203–206.

that only a few years ago we generally thought might preserve the world from repeating the catastrophic policy errors of the 1930s. On the global level, currency wars have made the G20, which two years ago was at the forefront of the global response to the financial crisis, irrelevant. The China–America dispute has shown the essential helplessness of the IMF, an institution which had been trying desperately to reassert its usefulness in the course of the global financial crisis.

At the moment, the Chinese leadership is paralysed in the face of the challenge of assuming international leadership, and views Chinese interest in human rights, Charter 08 and the activity of Liu Xiaobo as part of a subversive and American-inspired offensive against Chinese interests.

The key to whether the coming order is peaceful or not will lie in the ability of Chinese leaders—and of those in the big emerging economies in general—to encompass a vision that can provide an adequate psychological foundation not just for commerce across countries, but also for more profound levels of human exchange.

Globalization is not just about seizing and exploiting market opportunities. One of the favourite Enlightenment arguments followed Montesquieu's analysis of *doux commerce*, the civilizing power of trade. That is the argument that Carr was trying to refute. It should be said that in the century before Montesquieu's writing it actually looked more or less as implausible, as wrong, as it had in the 1920s and 1930s, in the context of continual commercial wars between France, England and the Netherlands. But then the sense developed that commerce demanded an imaginative understanding or empathy with the other—a sense of what different societies wanted or needed. Without that comprehension trade becomes an exchange of insignificant baubles.

The underpinning of commercial need by imagination and empathy need not always be positive. The dark side is especially apparent in the long course of relations between the western and eastern ends of the Eurasian land mass. Think of the attempts of western thinkers, politicians and merchants to conceive what China might need: the Jesuits' clocks in the seventeenth century were harmless compared to the guns of the eighteenth century and the opium of the nineteenth. It is easy to understand and sympathize with Emperor Chi'en Lung's famous response in 1793 to Lord Macartney's embassy, that the Celestial Empire possessed all things in prolific abundance and had no need to import the manufactures of outside barbarians.

Commerce demands understanding; and the wrong kind of understanding produces fierce reactions. A commercial order that relies simply on the unfettered extraction of surplus will lead to a breakdown of trust; and that breakdown will disturb and then destroy the international order. A market society cannot live simply on the basis of the values that it generates itself as a result of its own commercial activities and exchanges. Capitalism—whether the American or the Chinese style—does not simply engender its own popularity and legitimacy by an automatic magic of the market. The world of colourful baubles does not last. Conduct in a market society needs rather to be guided by some external source of

commonly defined and commonly held values. If those values erode, instability ensues.

This dynamic is at the heart of the mechanism that leads—at repeated historical intervals—to backlashes and reversals of the process of global integration. By themselves, the interchanges involved in globalization do not automatically establish a self-sustaining set of values. On the contrary, the continual change and uncertainty, driven by new encounters, new possibilities and new technologies, tend to subvert. A crisis then produces the demand for a return to older values, and often to ideas about self-sufficiency and the desirability of limiting intercourse.

The fundamental values that underlie empathy derive from some other source. What are the sources of basic values regarding human dignity, human motivation and conduct? A powerful current of interpretation suggests a religious origin. In a famous tract, Max Weber tried to suggest that the ethic that drove modern capitalism had originated with cultivation of a very unbusinesslike asceticism in the world of the Reformation. The idea of renunciation and a denial of consumption then produced an accumulation of surpluses. The initial asceticism of the business elite gradually eroded as it was replaced by what Weber called the ‘iron cage’ of rationalistic calculation. The original motivation disappeared, generating a feeling of emptiness in Weber’s account. That process of sucking out meaning from the economic process was what in Weber’s view produced a backlash. That backlash, in which economic processes were seen as merely naked exploitation and the imposition of power interests was what was misdescribed by E. H. Carr as the true character of the capitalist process.

Societies working through the strains of globalization backlashes then begin to look for alternatives. A recent book, *The dignity of a state* by Masahiko Fujiwara, makes an emotional plea for a Japanese ‘special path’. In particular, it argues that liberal democracy is a western invention that does not fit well with the Japanese or Asian character. The reasoning is peculiar, and seems to revive a nineteenth-century critique, usually associated with Nietzsche, that Christianity (and Islam) produces an acquiescent or even subservient mentality, in contrast to the heroic virtues of classical antiquity or of warrior societies, such as the world of the Japanese samurai. Likewise there is a backlash against reason, which is fundamental to the ability of societies to reach out beyond their own confines to touch and interact with others. According to Fujiwara, democracy overemphasizes reason, another western construct. ‘But we Japanese’, he writes, ‘don’t have a religion such as Christianity or Islam, so we need something else: deep emotion.’²³

The solutions tend to be nationally specific: solutions that can be employed in a national but not an international order. Last year, the governor of the People’s Bank of China, Zhou Xiaochuan, in a frontal attack on American hegemony, emphasized the importance of Confucianism, which values ‘thrift, self-discipline, Middle Ground and anti-extravagancy’.²⁴ This sounds like nostalgia for

²³ Masahiko Fujiwara, *The dignity of a nation* (Tokyo: IBC Publishing, 2007); see also David Pilling, ‘Lunch with the FT: Masahiko Fujiwara’, *Financial Times*, 9 March 2007.

²⁴ Zhou Xiaochuan, ‘On savings ratio’, 24 March 2009, <http://www.pbc.gov.cn/english>, accessed 10 Jan. 2011.

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the Weberian conception of a Protestant work ethic, which the West has lost or abandoned. But such appeals still raise Weber's question of how and why the work ethic is motivated, and in what ways it corresponds to basic human proclivities. We cannot simply understand economic life by observing its operation; we need to think about an inner logic, and about how that logic corresponds with the nature and the development of human character. In that sense, the financial crisis has brought us back to basics. The Chinese leadership understands that, but does not yet know how to respond. It can see the Chinese setting very acutely, but not how that answer can apply in a universe of values that are—well, universal.

