

WHO SAYS WORLD POLITICS IS BORING?
In search of a new world order after Georgia and the financial crisis

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As some of you may know, I got my PhD from this prestigious institution. My thesis had a very sexy title: *Flexible Integration and the Amsterdam Treaty: Negotiating Differentiation in the 1996-97 Intergovernmental Conference*. I even managed to convince Palgrave to publish it in 2002. I guess it says more about my power of persuasion than the business sense of the publisher. I am, however, waiting for the book to hit the New York Times bestseller list any time now...

Since leaving the LSE in 1999 I have spent a lot of time lecturing in many places, ranging from small town high schools and market places to the College of Europe in Bruges.

One of the things I've learnt in the process is that coming up with an ambitious title for the speech is part of the fun. I guess that today, for example, I could have spoken on the priorities for the Finnish Presidency of the Organisation for Security and Co-operation in Europe. Instead, I decided to go for a new world order. If you're actually more interested in the OSCE may I suggest that you follow our Ministerial meeting in Helsinki on 4-5 December.

This probably goes to show, if nothing else, that times they are-a-changing. We simply can no longer afford the luxury of sitting in the box of a particular institution, or a state for that matter, and watching the world go by.

Last week Prime Minister Gordon Brown delivered a speech at the Lord Mayor's Banquet. He focused on the remarkable chain of international events that we have witnessed over the past weeks and months. He noted that "*Historians will look back and say that this was no ordinary time but a defining moment: an unprecedented period of global change, a time when one chapter ended and another began – for nations; for continents; for the whole world*".

I think Gordon Brown is spot on. And it is against this backdrop that I would like to focus my lecture today on the fundamental changes that we have witnessed in world *economics, politics and governance* in the past few months. And what

these changes imply, both in terms of structural weaknesses in the current international institutions, and the possibilities for a new world order.

I would not even dare to suggest that I can give you a full analysis, let alone provide you with a blueprint of a new world order, but I will give you my “second diagnosis” of the post “080808” (Georgia) and post “080908” (Lehman Brothers) era. My first diagnosis was a speech I delivered in August to Finland's Ambassadors in the aftermath of the war in Georgia; but before the financial crisis.

I will start by dealing with the *economy*, move on to *politics* and finish off with some thoughts on *global governance*.

My thesis is simple. The international community has not been able to respond to many of the challenges of the post Cold War era and it is time to start thinking seriously about a new system of world governance. This system should be based on multilateral institutions, not *ad hoc* intergovernmental structures.

Let me then begin with the economy and the following quote:

“The post-war international economic order is gradually disintegrating. The Bretton Woods system of trade liberalisation, stable currencies, and expanding global economic interdependence no longer exists. Spreading protectionism, upheavals in monetary and financial markets and divergent national economic policies have eroded the foundations of the international system”.

Sounds like something from an editorial in the *Financial Times* or *The Economist* this week. Or something from last week's G20 meeting in Washington DC. Right? Wrong. It is actually from Robert Gilpin's 1987 classic *The Political Economy of International Relations*.

The quote shows that the current financial crisis has something of a *déjà vu* about it. In the midst of the 2008 crisis, many have been quick to pronounce the death of free markets and the return of protectionism. Goodbye capitalism, hello socialism.

However, this is a false dichotomy. The “state” and the “market” exist in symbiosis. In the *London School of Economics and Political Science* it goes without saying that in the absence of both state and market there would be no political economy.

Market economy requires regulation. Without rules there are no markets, just chaos and anarchy. All exchange is based on the principle that the creator of value is entitled to a profit. This principle can only be enforced by a regulator.

The internal market of the European Union, for instance, is based on four freedoms: the free movement of goods, services, capital and workers. Does this mean that they can run around rampant? Of course not! The internal market is regulated by a common set of EU laws.

What we are witnessing is not the collapse of liberalism, or capitalism for that matter. If we refute liberalism we would in effect be saying that individual rights and equality of opportunity are no longer valid. The logical consequence of this would be that the liberal principles governing our societies, such as freedom of thought and speech, limitations on the power of governments, the rule of law, an individual's right to private property, and a transparent system of government, should be abolished.

The real problem is one of governance. I will talk about this more in a moment, but at this stage it suffices to say that the current governance mechanisms have not been able to assure the stability of the financial markets. This does not mean that the markets should simply be closed down. It means that we need more effective governance. In order to be effective in a globalised economy, our governance mechanisms need to be global.

I am glad that the European Union took the lead in this debate. We should be thankful to the French Presidency of the EU for all the efforts it has put into this crisis. The worst thing a Presidency can do in times like these is to do nothing.

However, this does not mean that we should simply wait for President Nicolas Sarkozy to sort out the mess on our behalf, albeit with some help from Gordon Brown. Countries like the United Kingdom and Finland, whose wealth is basically based on free trade and open markets, should continue to make the point that protectionism is not the answer to the financial crisis.

There are three reasons for this. First, financial markets are specific. They have been the least regulated part of the global market. This needs to change but we should not throw out the baby with the bath water. The world needs more free trade, not less. It is the only way forward for the developing world.

Second, free trade is the only sure way in which open economies can maintain the health of their public finances. I can say this with certain confidence as the *Financial Times* chose my party leader and friend Jyrki Katainen as the European Finance Minister of the Year. No country can produce enough wealth from a few protected national champions to finance its public sector.

And third, protectionism would fly in the face of the rules of the World Trade Organisation at the worst possible time. It would destroy all hope of concluding the long overdue global trade agreement, which is part of the solution, not the problem.

As you are listening to the Foreign Minister of Finland, you probably expect me to give a Finnish angle to all this. So be it. Finland is often presented as the model economy of Europe. We are one of the few members of the euro zone that have always respected the rules of the Economic and Monetary Union. Our economy is competitive and our public finances are in order. Even our banking system is solid enough to withstand the current crisis.

But I am just about old enough to remember the time when our economy was at the brink of collapse. That was only about 15 years ago. We were not far from falling into the hands of the IMF. At the 11th hour we devised a rescue package for our banks which was, I'm proud to say, pretty similar to the rescue plans currently discussed at international level.

It was a bitter pill to swallow but the recovery that followed the return of confidence was all the more phenomenal. I will not shy away from saying that joining the euro played an important part in this. Once we were able to integrate into the euro zone, the real economy was free to flourish at its will. And it did. May this serve as a subtle hint to the country that I would most like to see in the euro-zone...

The moral of this story is simple. No economy is an island, not even the UK. It is the primary duty of political leaders to do everything in their power to provide an enabling environment for consumers and private enterprise. It is up to us, as politicians, to prevent an economic and financial meltdown. We can only do that if we act in together.

As a political scientist I naturally know that it is not only about the economy. That is why I now want to turn to the second theme of my lecture today: the political aspects of the current crisis.

The distinction between political and economic governance is arbitrary. The financial crisis is not only a crisis of economics; it is also a crisis of politics. The governance structures that have been agreed politically have been found wanting. As a matter of fact, I believe that most international organisations: including the UN, the OSCE, the WTO, the IMF and the World Bank have not been able to readjust to the post Cold War era.

The UN membership has not been able to renew its antiquated Security Council. Just recently Kosovo, Georgia and Darfur have proved the shortcomings of the decision-making system. We get stuck when the vital interests of the five permanent members are at stake. This is, by the way, not the only reason that Finland is campaigning for a seat of the Security Council in 2013-14...

The OSCE has not been able to solve the “frozen conflicts” of the Caucasus. Democratic reform within its membership has been slow. The WTO is struggling with the Doha round of trade liberalisation. The IMF and the World Bank failed to prevent the financial crisis.

I am not saying that these organisations should be abolished. On the contrary, if they did not exist they would have to be reinvented. My argument is that these organisations should be strengthened because they are vital to the peace, security and the political economy of the world.

These failures, however, stand in stark contrast to the EU and Nato, which have successfully enlarged their membership during the past 20 years. Despite occasional hiccups these two institutions have proved their vitality and capacity for reform. And by the way, they also happen to be the only two institutions that are exclusively composed of democratic nations.

The EU might not have a Lisbon Treaty just yet, but it has gone through three key treaty changes in the post Cold War era: Maastricht, Amsterdam and Nice. It has doubled its membership and established a common currency. The European Union is the biggest market in the world and a major player on the world stage. Well, at least when it manages to speak with one voice. The financial crisis and the war in Georgia have shown why we need the EU.

Nato has succeeded with enlargement as well. At the same time its focus has become global. Nato’s two main military operations are ISAF in Afghanistan and KFOR in Kosovo. Crisis management is at the centre of the alliance. At the same time it does not shy away from helping out in somewhat untraditional crises, such as the recent earthquake in Pakistan.

The urgency of multilateral co-operation transcends the current financial crisis. Climate change and the food crisis have not gone away, nor has the need for global action against weapons of mass destruction, terrorism, infectious diseases and poverty. What we need, more than anything else, is a body of institutions with the capacity to take action on these problems.

This brings me to my third and final theme of the day: global governance. The basic question that all students of international relations face is simple: is there

anything that could replace the current world order, the current international institutions? The answer is much more complicated than what I am about to suggest, but let me give it a first, albeit modest, stab.

The post World War II era was characterised by a bipolar world, dominated by the United States and the Soviet Union. The post Cold War era has been unipolar. The United States has been, and probably still is, the undisputed super power of the world.

Against the backdrop of the war in Georgia, the financial crisis and the election of Barack Obama, we are probably witnessing the embryo of a Post-American, multipolar world which should be based on multilateral institutions.

Fareed Zakaria, the editor of *Newsweek*, would call it “the rise of the rest”. The European Union, Russia, China, India, Brazil, South Africa, and many more countries and international institutions are trying to find their place in the new world order.

As I mentioned before, I do not think that the international community has been able to respond to some of the key challenges over the past 20 years. As a consequence we are beginning to see a plethora of ideas on how to structure a new world order. Some have called for a “Concert of Democracies”. President Medvedev has called for a debate on new European Security structures. President Sarkozy wants to organise a pan-European OSCE summit next year.

I welcome the debate. At the same time I think it is very important to stick to the fundamental principles of international relations, as outlined in the UN Charter and the Helsinki Accords. We can build on the old institutions, not replace them. Yes for reform, no for destruction.

I know some of you are thinking that we already have a body of global institutions in the UN system. Fair enough. But why aren't the world leaders turning to the UN in the current crisis?

The strength of the UN is in its potential to collectively maintain international peace and stability. Its weaknesses are two fold. First, its potential to succeed in this core task of peace and security has not been fully realised, to put it diplomatically. Second, the UN simply does not possess the horizontal powers and institutions that we need today. Even taking into account all of its more recent developments, the UN is a product of the post-war order. We live in the year 2008, not 1945.

But do we have an alternative for the UN system? I do not think so. The international financial institutions clearly don't seem to be a viable alternative

since the world leaders keep meeting outside these institutions to handle this crisis, almost on a weekly basis these days.

The G8 has its weaknesses that you are probably familiar with. How could the world be managed by an organisation that excludes China, India and the whole of Africa and Latin America, for example?

I personally think that enlarging the G8 to become the G20 is not necessarily going to work. The EU is the biggest economy of the world. The President of the European Commission, who was instrumental in preparing the G20 meeting in Washington, should have a seat around the table. G20 might work in quick financial crisis management, but will not be able to provide long-term solutions.

The G8, much like G20, or the UN for that matter, is at best as good as its members. It has no institutions and no legal base and, therefore, no means of enforcing its decisions. This has been sadly shown by the inability of the G8 to implement its summit pledges on increases in development assistance. The G8 approach would turn international governance into a permanent diplomatic conference, which would bring us back to the 19th century, and something akin to a "Concert of Great Powers".

The renewed Bretton Woods institutions will only be part of the solution. They might be able to bring stability back to the financial markets. But they will not provide a magical solution to climate change, world trade, poverty, and insecurity.

The financial crisis was a wake-up call to the international community. It could in fact be a blessing in disguise. If anyone needed convincing of the interdependence of the world community, they got it.

But it is interesting to follow the different lessons that are being drawn from this crisis. What we have been witnessing so far is not a genuine reform of world governance but an attempt to hijack power back to nation states. This is the essence of the G-something approach. Why is no one saying the obvious: this crisis has again shown how powerless the nation states are in a globalised world?

I'm afraid I know the answer. Nation states are by definition wary of anything that encroaches on their sovereignty. No stone will be left unturned in the quest for a solution that would in fact put the governments in the driving seat. This means that we will end up with an intergovernmental structure to manage the globalised world. The private operators will continue to operate globally and they will continue to be regulated nationally. If this is the outcome, it will be a missed opportunity.

I am firmly convinced that world governance can only be sustainable if it moves away from the Westphalian idea that nation states run the show. The main reason for the longevity of some organisations, such as the EU, the UN and the WTO, is their ability to provide internationally binding norms. We should not abandon that and move into adhoc intergovernmentalism.

The ideal solution for me would be a reformed UN, let us call it the United Continents (UC), where regional communities would come together to work out global norms that would then be implemented at a regional level by the regional organisations, such as the EU, the African Union, ASEAN, Mercosur, and so on. There has been no shortage of suggestions for reforming the UN. Now, if ever, it is time to act those reforms.

Perhaps the right place to start is to change the structure of the UN Security Council into a more regional structure. What matters for me is that the regional organisations maintain their willingness to play their part in world governance. This is the only way in which we can maintain some degree of accountability. And that is what matters the most in a liberal democracy like mine.

This brings me back to my point on the indivisible nature of world governance. All the challenges we face are interlinked. Financial troubles, climate change and food shortages can easily turn into security threats if they go unchecked. It is therefore not enough to establish new structures for economic governance and otherwise continue business as usual. We need reforms which are broad enough to address economic, political and governance issues.

Before coming here today I went back and had a look at my PhD. I began my PhD. thesis with a quote from E.H. Carr:

“Political science must be based on a recognition of the interdependence of theory and practice, which can be attained only through a combination of utopia and reality. A concrete expression of the antithesis of theory and practice in politics is the opposition between the intellectual and the bureaucrat, the former trained to think mainly on a priori lines, the latter empirically.”

I have always believed that international relations, more than most sub fields of political science, benefits from a symbiosis between theory and practice. The likes of David Mitrany, Karl Deutsch and Jean Monnet were in Carr's terms both “intellectuals” and “bureaucrats”. Intellectuals because they tried to describe and explain what was going on in world politics. Bureaucrats because their input inevitably shaped the development of international organisations in the post war era.

I am also a great believer in the strength of civilisation. One source of civilisation lies in the academic community. In times like these, it should not be content with sitting on the sidelines, giving comments on unfolding events. It is not only the right but also the duty of the academics to come out and give their views to inform the decision-makers before they make another mistake. I trust you will do your bit. Politics is too important to be left to the politicians alone.

I hope that the time is ripe for a fresh look at all the organisations we have established for managing different aspects of the world order. We cannot continue to re-define the rules of the game every time a new crisis erupts. We owe it to all the populations under threat of violence, poverty, disease or hunger to do better. The summits on financial governance are hopefully the start of a new recognition of our interdependence. It should be turned into global norms and institutions before it is too late. A crisis is a terrible thing to waste.
