



# KOSOVO

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### Losing faith

By Brahma Chellaney, Hindustan Times

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[2765c0156c33&MatchID1=4813&TeamID1=6&TeamID2=1&MatchType1=1&SeriesID1=1212&PrimaryID=4813&Headline=Losing+faith](http://www.hindustantimes.com/StoryPage/StoryPage.aspx?sectionName=HomePage&id=558f6f76-a97f-4f69-a627-2765c0156c33&MatchID1=4813&TeamID1=6&TeamID2=1&MatchType1=1&SeriesID1=1212&PrimaryID=4813&Headline=Losing+faith)

The rising geopolitical risks have been underscored by the multiple crises the world confronts today from a severe global credit crunch and financial tumult to serious energy and food challenges. Add to that the international failure to stem the spreading scourge of terrorism and the spectre of a renewed Cold War arising from the deterioration in relations between the West and Russia since Moscow's 8-8-08 retaliatory military intervention in Georgia and subsequent recognition of the breakaway regions of South Ossetia and Abkhazia" actions that some portray as the 21st century's first forcible changing of borders.

The world clearly is at a turning point, underscored by ongoing tectonic shifts in political and economic power. Tinkering won't help because the global crises cry out for fundamental changes in international rules and institutions. That was the broad conclusion at last week's inaugural World Policy Conference in Evian, attended by a number of heads of state or government, policymakers and intellectuals, including this writer. The common theme in many of the presentations was that the grave challenges the world faces today demand major fixes.

If existing institutions are not adapted to the new power realities in the world, greater instability is likely to ensue. As French President Nicolas Sarkozy pointed out in his address, a 21st century world is saddled with 20th century institutions. Consequently, there is great uncertainty over how to address the pressing challenges. In addition to the imperative to enlarge the United Nations Security Council and the Group of Eight, the failing Bretton Woods system needs to be overhauled. The various crises have shown, as Russian President Dmitry Medvedev highlighted, that no single power or institution can claim exclusive rights to set the rules.

Changing the international institutional structure, however, is no easy task. The existing institutions were born of crises and now represent entrenched interests of some players. It will be difficult to reform or replace them until a serious, sustained crisis makes change inescapable. The financial meltdown could be one such crisis that facilitates an overhaul of the Bretton Woods institutions at a time when Asia has emerged as the world's main creditor. But as the futile efforts to reform the Security Council for more than two decades illustrate, revamping any institution is a Herculean task. Even reforming the International Energy Agency is proving daunting. Meantime,



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the Great Powers continue to impose their will on weaker nations, limiting the latter's freedom of action.

For too long, but especially since the end of the Cold War, democracy and markets were touted as the twin answer to all ills. Today, both have come under serious strain. Democracy is in retreat globally after the successes of the 1990s in spreading political freedoms to Eastern Europe and overturning dictatorships in Indonesia, South Korea, Taiwan and Chile. The financial crisis, for its part, has helped turn free-market principles on their head.

After having dispensed one prescription to all " liberalise, privatise and emulate the Anglo-American practices of financial and corporate governance " the US has taken the lead in precipitously embracing principles of financial socialism in the current crisis. The US has swung from implicit faith in the power of markets to bailing out its troubled financial behemoths in a manner that seeks to keep profits in private hands but nationalises the losses. By palming off losses to the masses, the US has not only backed away from its own model of capitalism, but also set in motion new practices that some European economies have been too quick to emulate. Nothing better illustrates the troubling turn of events than London's use of an anti-terrorism law to freeze the British assets of an Icelandic bank.

The US government takeover of Fannie Mae and Freddie Mac, bailout of AIG and moves to partially nationalise some banks mark the end of America's trust-the-markets capitalism. Henceforth, the US will have no face to preach laissez faire capitalism. In fact, the global financial mayhem has resulted from the excesses of Anglo-Saxon capitalism, symbolised by unbridled risk-taking, which created a liquidity problem before manifesting itself as a solvency problem. The lesson: high living on borrowed Asian money is just not sustainable.

The gap between principle and practice has also extended to the foreign-policy realm. The West, for example, has supported the inviolability of international borders while contradictorily backing the right of self-determination. Having sponsored Kosovo's self-proclamation of independence from Serbia last February, the US and some of its allies today find themselves in the awkward position of opposing the right of self-determination for the people of South Ossetia and Abkhazia - now self-declared independent entities under Russian protection. It is as if the legitimacy of a self-declaration of independence depends on which Great Power sponsors the action.

The events of September 2008 that set in motion the financial meltdown and now threaten global recession have proven no less significant than 9/11. While 9/11 involved terrorist attacks on symbols of US power, the events since last month represent an insidious assault on US financial might, which helps underpin America's global strategic heft. Together with the other crises, they signal an end to the leadership role the US has played in the economic and political spheres since the end



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of World War II. The multiple crises indeed are proof that America, with its own mess, is no longer able to play global guardian.

Until a new world order emerges, we will continue to live, to quote Sarkozy, in "a dysfunctional world with an outdated set of rules". Only revamped institutions and new rules can deal with the root causes of the present crises, not just the symptoms.

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