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Can the world order catch up with the world?

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The world turned a corner last year. The problem is that the world order didn't turn with it. This disconnect could have disastrous consequences.

The biggest global change has been the start of the "Asian Century". Today, Asia is home to three of the world's top four economic powers (in purchasing power parity terms): China, India and Japan. The region's combined gross domestic product exceeds that of the United States and of the European Union.

The US is no longer even the most globalised power; that title now goes to China. Already a larger trading partner to more countries than the US, China is signing on to more free trade agreements (FTAs) as well, including potentially the largest in history – the Regional Comprehensive Economic Partnership. The US, in contrast, is abandoning FTAs such as the Trans-Pacific Partnership, which Japanese Prime Minister Shinzo Abe has kept alive without the Americans. The US share of global trade continues to shrink.

The world order has not kept pace with these shifting economic dynamics. On the contrary, the US dollar remains the predominant currency for settling international trade. The US and Europe retain control of the two leading global economic organisations: the International Monetary Fund (IMF) and the World Bank. And the United Nations Security Council (UNSC) – the only body that can issue binding decisions for the UN's 193 member states – is dominated by just a few, largely declining powers.

In theory, the easiest of these incongruities to address should be the inadequate influence of emerging powers like China in the IMF and World Bank. After all, the US and Europe have already acknowledged – including in the 2006 and 2007 Group of 20 communiques – that "the selection of senior management of the IMF and World Bank should be based on merit", ensuring "broad representation of all member countries".

Yet the anachronistic "gentleman's agreement" that has kept an American at the head of the World Bank and a European leading the IMF has proved stubbornly resilient. In 2007, Mr Dominique Strauss-Kahn became IMF managing director, succeeded by another French citizen, Ms Christine Lagarde, in 2011.

Six years later, Ms Lagarde declared that the IMF could be based in Beijing by 2027, if growth trends continue and are reflected in the fund's voting structure. After all, she noted, IMF's bylaws call for the institution's head office to be located in its largest member economy.

Yet, when Ms Lagarde resigned from her post last year to become president of the European Central Bank, it was yet another European who took her place: Bulgarian economist Kristalina Georgieva. Likewise, the World Bank presidency passed from Mr Robert Zoellick to Mr Jim Yong Kim in 2012, and then to Mr David Malpass last year. Future historians will marvel at the imprudence of the old powers' shameless refusal to share control of global institutions.

And yet the US and the EU are not the only ones working to safeguard their clout. In the UNSC, the five permanent members (P5) – China, France, Russia, the United Kingdom and the US – also pay lip service to the need for reform, but consistently obstruct progress.

Complicating matters further, additional countries attempting to get a permanent seat on the council are facing resistance from their neighbours: Pakistan is blocking India's bid; Argentina is blocking Brazil; and Nigeria is blocking South Africa. Given these dynamics, the UNSC will be even more difficult to reform than the IMF or the World Bank.

But, again, failure could be disastrous. If the UNSC's composition is not updated, the body could lose its credibility and moral authority. If the African Union or India refused to abide by UNSC decisions – essentially the decisions of the P5 – the international community's most important body wouldn't have much recourse.

To avert such an outcome, the UNSC should adopt a "7-7-7" formula. The first seven would be permanent members – Brazil, China, the EU (represented by France and Germany), India, Nigeria, Russia and the US – each of which represents a different region.

The second seven would be semi-permanent members, a rotating selection of 28 countries, based on population and gross national product. The remaining 160 countries would rotate into the remaining seven seats.

The most difficult incongruity to resolve will be that between America's declining leadership and its currency's role as the leading international reserve currency.

Today, more than 40 per cent of cross-border payments and 90 per cent of foreign exchange trading are settled in US dollars.

This reflects decades of trust: The US had deep markets and strong institutions – including efficient courts and an independent central bank – and it did not use the dollar as a tool to advance its own interests.

But, since 2017, US President Donald Trump has been aggressively undermining the international community's trust in the dollar. He has pressured the US Federal Reserve to lower interest rates in order to deliver short-term economic growth as he campaigns for re-election. And he has weaponised the dollar, labelling China a "currency manipulator" and instructing the US Treasury to put more countries under surveillance.

Mr Trump's behaviour has raised the hackles not only of adversaries (Russia leads a new de-dollarisation trend), but also of key allies. Former European Commission president Jean-Claude Juncker has pledged that the euro would become an "active instrument" of EU sovereignty. It is also telling that France, Germany and the UK – in collaboration with China and Russia – have created the Instrument in Support of Trade Exchanges to bypass US sanctions on Iran.

But, in a sense, Mr Trump has done the world a favour by making undeniable what was already obvious. If world leaders do not start addressing the contradictions plaguing the world order soon, the likely result is crisis – and even more dangerous contradictions.

PROJECT SYNDICATE

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