

# Together, recession and climate change mark the end of an era



It's not globalisation that is threatened by the economic crisis, says **Dirk Messner** of the German Development Institute, but the age of industrialisation that dates back 200 years. He sets out ideas for a new approach to global policymaking

An era is drawing to a close with the global economic crisis – but not, as many critics of globalisation may think, the age of globalisation. What we now see going down is the international order in which Western societies were the centre and the measure of all things. The age of industrialisation was based on the delusion of infinite natural resources and the world's infinite capacity to absorb greenhouse gas emissions and the illusion that despite accelerating globalisation, the nation-state could somehow just muddle on.

Now our concern must be to create a truly viable and sustainable form of globalisation more suited to the challenges of the 21<sup>st</sup> century. Today's worldwide economic debacle is opening a window of opportunity for us to put these central challenges at the top of international political agendas with four major trends at the heart of global transformation. But to have a hand in shaping these changes and protecting its

interests, Europe now needs to define its own role as a global player.

The first lesson to be learned from the financial crisis is that the principles of self-interest and self-regulated markets are no longer sufficient to organise either national or global economies. Instead, we have to embed the global economy in a new institutional framework – a Bretton Woods MK II. What is at stake is a sustainable regulatory basis for the global economy that does justice to the diversity of market economies, now that the Wall Street model has self-destructed before our eyes. It will be interesting to learn what new ideas China, India, Brazil, South Africa and the new U.S. administration have in mind while for the EU it will be key to develop a joint project of a mixed global economy that includes social and environmental dimensions. It is a huge challenge, and if our efforts fail we risk seeing a fragile or a fragmented global economy that will give

rise to serious political tensions and a wave of protectionism around the world.

The second global dynamic is that we need to abandon the idea that globalisation is Westernisation. China is already an indispensable actor in the world economy and its politics; it is the third-largest economy, and holds the biggest currency reserves of \$1.8 trillion, while also developing a high level of innovative dynamism. And if India continues on its present economic path, the two Asian giants will within 20 years have profoundly altered the structure of the global economy. We are already witnessing tectonic power shifts as the winners of globalisation are Asian and the global crisis is accelerating this process. Brazil, South Africa, and some Arab countries are also on the rise, so the G8 as the all-powerful governance centre of the world economy is a thing of the past as we are moving into a G20-plus era.

The first discernible feature of the new multipolar order is crisis of western leadership. The Obama Administration has to clean up the huge collateral damage of the financial crisis and of America's loss of soft power during the Bush years. As to Europe, although it is the world's most interesting laboratory for regional co-operation and integration, it still lacks global clout. OECD countries as a whole are going to have to learn to accept yesterday's "have-nots" as genuine partners. Power is a process of

global redistribution, but no new regulatory pattern has yet emerged.

Meanwhile, the debate on the world economic order is ushering in an end to the age of the classic nation-state. The new rules governing the world economy must be based on something like a "charter of global interdependencies." But if global governance is becoming a key concept of international politics, the EU needs to be realistic because it will only play a relevant role in this new world if it speaks with a common voice. Otherwise the G20 will probably be driven by a G2 of the U.S. and China.

The third global imperative is that an ever-more closely networked world economy is incompatible with a situation in which two billion people live on less than two dollars a day. This is not just a normative or humanitarian statement; from a sustainable globalisation perspective the main message has to be that there will be no way to end state failures and international terrorism until we have "globalisation with a human face". This simple truth must not be obscured by the global recession. In the future we are going to have to get our priorities right. Now the illusion is over that financial capital can be multiplied infinitely, the time has come to invest in the social capital of world society.

Europe has a special role as the developing countries' largest trading partner, the largest provider of development aid,

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with cultural and political networks in all developing regions. The EU should play a far more visible role in the multilateral development agencies, and should take the lead by presenting a development policy action plan. The global economic crisis means that aid flows must be not just sustained but increased. At present, despite ambitious promises, actual delivery is 30% below the 2010 target. And now the talk is of cutting aid not increasing it. Although the UK so far is holding firm, and Germany is working hard towards its target, Italy has proposed cuts of up to 56%.

The fourth global reality is that the climate crisis is an energy, food, and security crisis, and poses far greater challenges than the deep crisis in our economic system. The process of global change needed to meet this challenge is huge, and the pressure to act is growing by the day. To avoid dangerous climate change from 2015 onwards, global emissions must start to decline worldwide. By 2050, the OECD countries must reduce their greenhouse gas emissions by 80%. What is at stake is the transition to a non-fossil fuel world economy – a truly millennial task in the wake of 200 years of natural resource-driven growth.

Yet now the recession has led some in the EU business community and even some governments to question the EU's climate targets. Europe must nevertheless retain its pioneering role, with concrete proposals for a Green New Deal. Although the forces in support of maintaining the *status quo* are considerable, we need to fight the impact of economic recession and climate change with significant low carbon

investments, innovation initiatives and eco-efficiency oriented business models. Most of the current stimulus packages of European governments are, however, disappointing because they do not link public investment and growth policies with a clear, long-term perspective on the coming non-fossil era.

We need to recognise that these reform initiatives are not purely technocratic; our mentality needs to change. The narrow shareholder should be replaced by ideas that are more compatible with the challenges of the 21<sup>st</sup> century. This means:

- Investing in the regeneration of social and natural capital as the foundations of real wealth.
- Accelerating social innovation by nurturing cultural diversity.
- Increasing economic efficiency by revolutionising resource and energy efficiency.
- Balancing the interests of nation states with global governance initiatives characterised by fairness, co-operation, mutual trust and recognition.
- Recognising that dialogue on an equal footing in a globally interconnected world is only possible if we can begin to understand that our national interests are not an over-riding factor. □

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