



# POLICY BRIEF



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## Emerging economies are reshaping the liberal international order (and what to do about it)

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Innovative emerging economies are playing offence, creating new organizations and rules of the game, while OECD countries play defence, trying to maintain their status and privileges in a much-changed world. But there is a better way to play this.

### WHAT'S AT STAKE?

Middle-income and emerging economies are dissatisfied with their place in the liberal international order. Since they now represent both a majority of countries and of the world's population (Horner and Hulme, 2017), their challenge to the liberal international order must be taken seriously. The pillars of that order include the main international organizations (e.g., UN, World Bank, IMF, OECD) and associated institutions, or rules of the game.

### KEY RESULTS

- While OECD countries defend the liberal international order, emerging economies are innovating and reshaping that order in good ways and bad. Time favours the innovators.
- Emerging economy governments have the technical and financial firepower and moral authority to contest the OECD's previous monopoly positions in trade, finance and public policy advice.
- To defend the liberal international order, OECD countries must triage: defend the essentials, cease defending the indefensible, and accommodate emerging economies' legitimate demands.

Emerging economies are innovating, creating new international organizations that they control (e.g., New Development Bank) and reinvigorating old ones (e.g., CAF Development Bank of Latin America), and changing the international rules. Western powers in the OECD have been more pre-occupied with defending their morally and politically dubious privileges (e.g., American presidency of the World Bank; Trade-Related Aspects of Intellectual Property Rights – TRIPS during pandemics) than with accommodating the legitimate demands of developing countries for a more equitable international order.

Faced with Western governments' perceived intransigence and hypocrisy, emerging country governments are using their considerable technical expertise, financial resources and moral authority to set the global agenda. While OECD countries can accommodate some of these innovations (e.g., the new international development banks), they will find other aspects (e.g., the authoritarian tendencies of the Shanghai Cooperation Organisation) more problematic. To defend the liberal international order, Canada and its allies must triage: staunchly defend the positive aspects of the liberal international order (e.g., the international human rights regime), cease defending their indefensible privileges, and accommodate the emerging powers' legitimate demands for a greater voice in international trade and finance. Forming new types of partnerships with emerging countries on the basis of equality is also essential.

In this brief, Lauchlan Munro (University of Ottawa) uses new institutional economics to study the strategies of both the OECD powers and the emerging countries in reshaping the liberal international order.

## KEY FINDINGS

**Emerging and middle-income countries are increasingly not reliant on western expertise or aid, and they now have other sources of both**

Governments in emerging economies now have high levels of technical expertise and deep pockets. They can borrow from local and international capital markets, including other emerging economies, while attracting foreign direct investment from North and South. Most middle-income countries do not depend on bilateral aid agencies or international organizations for either policy ideas or funding (Rahman and Baranyi, 2018). South-South cooperation in trade, finance, security and policy advice is the new trend.

**Western nations have lost their moral authority to lead, while alternatives are on offer**

The Western triumphalism of the nineties and noughties now has a hollow ring. #MeToo, #BlackLivesMatter, #MMIW (Missing and Murdered Indigenous Women), the mendacity of Brexit and Trumpism and COVID-19's exposure of the West's racialized inequalities have revealed glaring deficiencies in Western democracies. Western countries' foot-dragging (until recently) on climate change, their refusal to deliver on longstanding promises (e.g. the 0.7% target for aid) and their insistence on maintaining the "right" to name the heads of international organizations have undermined their moral standing. At the same time, the development results speak for themselves. The 2008 financial crisis was the West's self-inflicted wound. The emerging economies making the most development progress over the past four decades have generally not followed the OECD orthodoxy of limited and democratic government, free markets, rule of law and good governance (Meisel and Aouida, 2007). Think Bangladesh, China, Malaysia, Turkey, Vietnam.

**Western nations play defence, while emerging economies play offence**

Emerging countries want more say in the international order and to get that they are building whole new international organizations, bypassing or supplementing older, Western-dominated ones. These organizations' objectives include often promoting South-South economic integration (e.g., New Development Bank). Emerging countries are changing the rules of the game, often through regional groupings (e.g., currency swap arrangements like the Chiang Mai Initiative substitute for the IMF). Meanwhile, Western nations are engaged in maintenance, trying to shore up the system they designed and built.

## POLICY INSIGHTS

**Time favours the innovators**

"Those skilled in war bring the enemy to the field of battle and are not brought there by him" (Sun Tzu, 1963: VI.2). Emerging countries are innovating, while the Western powers' main strategy is maintenance. Faced with the emerging powers' dynamism, their determination in the face of Western intransigence and hypocrisy, and the increasing availability of non-Western sources of finance (e.g., China, Gulf emirates) and heterodox policy ideas (e.g., "the Beijing

consensus”), the strategy of maintenance cannot win the battle.

### Canada and its allies must triage in defending the liberal international order

“You can ensure the safety of your defence if you only hold positions that cannot be attacked” (ibid.: VI.7) Western powers are defending morally and politically indefensible positions, such as their TRIPS-based insistence on patent rights during COVID-19 and Europe’s “right” to name the IMF’s next head. Meanwhile, some emerging powers are pursuing undemocratic ends; the Shanghai Cooperation Organisation, for instance, downplays human rights and the rule of law in the name of sovereignty, political stability and counter-terrorism.

Canada and its allies are defending both the good parts of the liberal international order (i.e., those parts that protect the weak from the strong, like the rules-based adjudication of international disputes and the international human rights regime), and the bad parts, and so leave themselves open to accusations of hypocrisy. To better defend that order, Canada and its allies must decide 1) which aspects of the liberal international order they need to defend staunchly, 2) which privileges they need to abandon as indefensible, and 3) which of the emerging powers’ legitimate demands should be accommodated (thereby boosting Southern ownership of the liberal international order).

### Other partnerships are possible

Canada can show its sincerity and increase its effectiveness by developing new ways to work with emerging countries on the basis of equality, respect, solidarity and mutual interest (e.g., Currie-Alder, 2015), leaving aside notions of superiority and privilege.

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