Crisis marks out a new geopolitical order

By Philip Stephens
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Blame greedy bankers. Blame Alan Greenspan's careless stewardship of the US Federal Reserve. Blame feckless homeowners who took out loans they could never expect to repay. Blame politicians and regulators everywhere for closing their eyes to the approaching tempest.

All of the above are culpable. I am sure there are even more villains lurking out there. Sometimes, though, it is worth looking through the other end of the telescope. The wreckage of the financial system holds up a mirror to the changing geopolitical balance. It offers advice, and a warning, as to what the west should make of the emerging global order.

Until quite recently, the talk was about the humbling of America's laisser faire capitalism. The US government's $700bn bail-out was the price to be paid for past hubris. For reasons that still elude me, one or two European politicians seemed to delight in the troubles of an ally that still guarantees their security.

Schadenfreude comes before a fall. Solid, conservative Germany has been among the European nations forced to shore up its banks. Angela Merkel, the chancellor, has been **driven to assure German voters** publicly that their savings are safe.

Belgium and the Netherlands have rescued Fortis. Ireland and Greece have issued blanket guarantees to bank depositors. Others have done something similar. Most dramatically, Gordon Brown's British government has **part-nationalised all of its leading banks** in a desperate bid to crack the ice of the credit freeze.

If the toxic mortgage securities and opaque credit swaps that infected the world's financial system came with a made-in-the-US stamp, European banks were eager buyers. For the humbling of America, we should substitute the humbling of the west.

Asia, as we have seen in the markets this week, is not immune from the shocks and stresses. Japan, which has only quite recently emerged from the long twilight of its 1990s banking collapse, has now been **hit anew by the global storm**. China felt compelled this week to follow western central banks in cutting interest rates. So did a host of smaller Asian countries. Recession in the US and Europe will slow the growth of Asia's rising economies.

Standing back, though, two things mark out this crisis as unique. First, is its sheer ferocity. I am not sure how useful it is to make comparisons with the 1930s. History never travels in a straight line. What is evident is that governments and central banks have had no previous experience of coping with shocks and stresses of the intensity and ubiquity we have seen during the past year.

The second difference is one of geography. For the first time, the epicentre has been in the west. Viewed from Washington, London or Paris, financial crises used to be things that happened to someone else – to Latin America, to Asia, to Russia.

The shock waves would sometimes lap at western shores, usually in the form of demands that the rich nations rescue their own imprudent banks. But these crises drew a line between north and south, between the industrialised and developing world. Emerging nations got into a mess; the west told them sternly what they must do to get out of it.

The instructions came in the form of the aptly-named Washington consensus: the painful prescriptions, including market liberalisation and fiscal consolidation, imposed as the price of financial support from the International Monetary Fund.

This time the crisis started on Wall Street, triggered by the steep decline in US house prices. The emerging nations have been the victims rather than the culprit. And the reason for this reversal of roles? They had supped enough of the west's medicine.

A decade ago, after the crisis of 1997-98 wrought devastation on some of its most vibrant economies, Asia said never again. There would be no more going cap in hand when the going got rough. To avoid the IMF's ruinous rules, governments would build their own defences against adversity by accumulating reserves of foreign currency.

Those reserves – more than $4,000bn-worth at the present count – financed credit in the US and Europe. There were other sources of liquidity, of course, notably the Fed and the reserves accumulated by energy producers. It also took financial chicanery to turn reckless mortgage lending in to triple A rated securities. But as a Chinese official **told my FT colleague David Pilling** the other day: "America drowned itself in Asian liquidity."

Owning up to the geopolitical implications will be as painful for the rich nations as paying the domestic price for the profligacy. The erosion of the west's moral authority that began with the Iraq war has been greatly accelerated. The west's debtors cannot any longer expect their creditors to listen to their lectures. Here lies the broader lesson. The shift eastwards in global economic power has become a commonplace of political discourse. Almost everyone in the west now speaks with awe of the pace of China's rise, of India's emergence as a geopolitical player, of the growing roles in international relations of Brazil and South Africa.

Yet the rich nations have yet to face up properly to the implications. They can imagine sharing power, but they assume the bargain will be struck on their terms: that the emerging nations will be absorbed – at a pace, mind you, of the west's choosing – into familiar international forums and institutions.

When American and European diplomats talk about the rising powers becoming responsible stakeholders in the global system, what they really mean is that China, India and the rest must not be allowed to challenge existing standards and norms.

This is the frame of mind that sees the Benelux countries still holding a bigger share than China of the votes at the IMF; and the Group of Seven leading industrialised nations presuming this weekend that it remains the right forum to redesign the global financial system.

I have no inhibitions about promoting the values of the west – of preaching the virtues of the rule of law, pluralist politics and fundamental human rights. Nor of asserting that, for all the financial storms, a liberal market system is the worst option except for all the others. The case for global rules – that open markets need multilateral governance – could not have been made more forcefully than by the present crisis.

Yet the big lesson is that the west can no longer assume the global order will be remade in its own image. For more than two centuries, the US and Europe have exercised an effortless economic, political and cultural hegemony. That era is ending.

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