

## **Linkage and Leverage in International Affairs**

By Mike Rose

Militants within 100 miles of the capital, random bombings throughout the country, a global economic crisis rocking international order, a weak government incapable of decisions now losing control, nuclear weapons under the control of a military pervaded with Islamist sympathizers - these developments sound like the elements of my new thriller. Unfortunately, current events in Pakistan are not confined to my imagination and move so rapidly that each chapter I write is rendered uninspired in comparison to the headlines I read in the morning paper. So much for my writing career but given these realities, how should we deal with the building crises in South Asia and around the world? The answer may lay not so much in new institutions and strategies (though new ones are necessary) but in better linking and leveraging those that already exist. Is it possible that the dark clouds that surround us may, in fact, contain within them the very opportunities we need to further global order? Indeed, the global crisis forces all nations to come together and work towards solutions to common threats because no one nation has the power to do so. Some may be reluctant to admit it but all recognize that the old national approach is no longer working, we require global solutions for global crises as Kissinger has stated, "the international system is in a period of change like we haven't seen for several hundred years," because of the declining power of nation-states.<sup>1</sup>

We are all familiar with the litany of global threats including terrorism, nuclear proliferation, global warming and the list goes on. What's lacking is a common framework to address these issues. At the dawn of the 3<sup>rd</sup> millennium, economic growth and wealth accumulation are compelling objectives on most national agendas. Even recalcitrant nations respond to economic stimuli, note North Korea's energetic response to the isolation of Banco Delta Asia in Macau.<sup>2</sup> Isolation from the global financial system can induce severe pain on any country. Hence, it seems natural to propose that access to the global economic architecture (WTO, IMF, WB) serve as the fundamental leverage point that incentivizes the world's nations toward responsible global citizenship and stakeholder-ship in global order (see Figure 1). Leverage, simply put, is a means of multiplying effort. We are all familiar with the ability to easily lift a friend with a seesaw. In banking, leverage is the ability to take our current assets and borrow (say 10 times as much) thereby greatly increasing our buying power. In military affairs, the force multiplier plays the same role and consists, for example, of building up the Iraqi Army or co-opting friendly militias and tribes. The idea we advocate here suggests that a UN decision carrying with it a either a WTO sanction or benefit, will greatly multiply a decisions impact and increase the likelihood of compliance.

Similarly, stronger linkages are essential between the global institutions to insure that adherence to internationally accepted norms and conventions is broad-based, that is to say, a rubber seesaw is no fun. It is generally accepted that linkages exist to the great issues we face, for example most Arab states link issues to the Israeli-Palestinian conflict. Why shouldn't solutions also involve linkages? In fact, we have seen this in Libya's release from US sanctions following the abandonment of nuclear weapons research. Linkage as a policy is not new and was pursued by Kissinger and Nixon during the cold war with Russia and China. The idea then was to link progress against third world revolutions in return for US military and economic concessions.<sup>3</sup> Here we simply expand and extend the idea by taking advantage of the international institutions that have emerged since.

## **Architecture**

Now more than ever a coherent and cohesive, rules based system is key to global order. Since WWII, global institutions have been at the heart of the international system although more recently they have been relegated to the background. With the current crises we face, it makes sense for us to recommit ourselves to these institutions by reforming those that currently exist, introducing new institutions as well as tightly linking participation in these institutions such that running afoul of one's rules may result in expulsion from all (see Figure 2). Recently, efforts have been initiated to expand the UN Security Council. In addition, legal institutions like the International Criminal Court (ICC) have gained prominence despite the US's refusal to join. This decision should be reconsidered in light of the positive impact that has resulted from the arrests/indictments of war criminals including most recently Omar al Bashir. Indeed, Libya's President Qaddafi has stated regarding Charles Taylor, "It sets a serious precedent. This means that every head of state could meet a similar fate."<sup>4</sup> Some have argued the court has no enforcement mechanism but what if indictment meant an immediate trade sanction from the WTO or a cutoff from the US banking system? You might see some serious reflection on the part of potential malefactors.

As a result of the current economic crisis a strengthened international economic architecture is a hot topic among the G-20. Ideas like a global financial services authority (FSA) as well as a reformed IMF and WB with broader ownership are getting traction. An IMF-WTO linkage mechanism has been proposed to ward off protectionism in the form of currency manipulators.<sup>5</sup> In this approach, the WTO sanctions IMF identified offenders. A "Grand Bargain" allowing for merit based ownership of the IMF and WB would encourage participation in this scheme.<sup>6</sup> Beyond this, one could even imagine a World Federal Reserve system (WFR) consisting of linking the major reserve banks together toward a common purpose of low inflation, high employment and global growth. Understanding collective global financial risk, either through a FSA or through WFR, requires global participation and transparency. With the legal authority and resources to act in times of crisis, these linked institutions would mark a huge advance in the security of the global system and an irresistible incentive to nation's to get on board. It should be noted that strong objections exist to global financial regulation.<sup>7</sup>

Recently, trade agreements have been the subject of scrutiny for their fairness and environmental standards. Here again, linkage can help. By linking WTO membership to ILO (International Labor Organization), UNEP (UN Environmental Programme), and WHO (World Health Organization) membership and adherence, we further the cause of labor rights and decent working conditions. Challenges like global warming and global contagion (bird flu, etc.) can also be addressed through similar linkage frameworks among institutions as well as specific agreements. Here are some of the basic elements of a new linked economic architecture:

- Link Governance to Economic Institutions (Figure 2)
- Create Global Financial Services Regulatory Authority - FSA
- Broaden Ownership and Funding of WB and IMF
- Coordinate action of Central Banks (USFR, ECB, BoJ, BoC) - Realign charters to common global objectives (global growth and low inflation)
- Create LLR (Lender of Last Resort) Crisis Facility through coordinated central bank mechanism
- Implement IGAP (International General Accounting Principles) and Basel II Banking Capitalization Standards
- Link Acceptance of and compliance with FSA and Standards to participation in WTO
- Link participation in WTO to acceptance of ILO fair labor standards, UNEP environmental standards, WHO health standards, and acceptance of ICC

Some of these ideas go beyond what has been so far suggested, nonetheless, the current crisis requires bold new thinking. What we suggests here goes well beyond linking economic institutions to include governance as well and would probably require the modification of currently existing institutional charters.

## Examples

The following examples illustrate how this new mechanism might be favorably employed.

### 1. Nuclear Grand Bargain

- Create a new 'nuclear international system' that includes nuclear repositories, processing and inspections by nuclear haves.
- Haves agree to verifiable reductions in nuclear arms
- Have-nots pay for their nuclear plants but do not pay for nuclear fuel which is supplied and controlled by the international nuclear system.
- Have-nots that join system gain greater access to US markets and financial institutions (conditional bilateral trade agreements), pathway to WTO membership and MFN status, special consideration for WB and IMF loans as well as technology assistance.
- Have-nots receive security guarantees

### 2. Irapakindo Grand Bargain (Iran/Afghanistan/Pakistan/India)

- Iran joins International Nuclear System
- Iran breaks with Hamas, Hezbollah and fully cooperates in War on Terror
- Iran receives pathway to WTO and lifting of US sanctions
- Afghanistan receives pathway to WTO and access to US markets
- Pakistan receives investment in textile and agricultural industries
- Pakistani Army and ISI break with jihadi clients
- India/Pakistan agree on Kashmir
- Iran/India/Pakistan/US agree on non-aggression pact
- India receives seat on SC
- Russia provides and monitors fuel supplies in International Nuclear System
- Russia receives pathway to WTO
- China agrees to provide support in Afganistan and Pakistan
- China receives top position in IMF and WB
- US removes missile defense system from Europe

## Conclusion

Regardless of the specifics its form may take, a global system is central to any strategy that hopes to bring about global stability. Linkage and leverage are time tested mechanisms for influencing behavior. By linking global governance institutions together, then linking global economic institutions, and then finally applying leverage, a powerful mechanism for peace is created. Finally, it goes without saying that the role of the US is essential in providing the leadership of any such approach. As a prime mover in the current crisis, the US has a strong interest in fostering a new global order by using linkage and leverage toward the goal of lasting world order and peace.

## Notes

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2. David Lague, "Macao bank defends North Korean dealings," International Herald Tribune, February 2, 2007. (<http://www.ihf.com/articles/2007/02/01/business/bank.php>)
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7. Dani Rodrik, "A Plan B for global finance," The Economist, March 14, 2009.