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Towards a Secure World

On the Cusp of Change: Reforming Bretton Woods Institutions and the WTO

*Mrugank Bhusari

"Historically, pandemics have forced humans to break with the past and imagine their world anew. This one is no different. It is a portal, a gateway between one world and the next", writes the Indian author Arundhati Roy in *The Pandemic Is A Portal*. As we move from our contemporary world to the next, the COVID-19 crisis and the recession provide a unique opportunity to rethink the architecture of economic global governance, and to imagine new manifestations of multilateralism.

The institutions that cover the majority of the economic global governance landscape were themselves born as humans walked through such a portal, past the Second World War into the 'Golden Age'. The International Monetary Fund (IMF) and the World Bank, or the Bretton Woods Institutions, were created in 1944 at the Bretton Woods Monetary Conference in New Hampshire, USA, to establish the rules for a post-war international economy. The IMF was endowed with financial resources and powers of surveillance to oversee the new monetary approach and to provide short-term balance of payments relief. The World Bank in turn was purposed with helping rebuild European countries devastated by World War II. This monetary and financial system was to provide the foundation for a liberal trading system. However, when the International Trade Organisation that was originally proposed to oversee international trade did not materialise, the General Agreement on Tariffs and Trade, which entered into force in 1948, and which was the predecessor to the World Trade Organisation (WTO) that was established in 1995, became its substitute.

Over the years, even as the Bretton Woods system collapsed in 1971, the institutions persisted, adapting to reflect changing economic circumstances, and have become considerably different from the original concept. While the IMF sharpened its focus on structural reforms, the World Bank has since shifted its attention to Africa, Latin America and Asia and has enlarged its focus on international development and poverty reduction. Ever since, these institutions have been present during most national and global financial crises, presumably to aid and assist, but frequently accused of forwarding zombie ideas from a playbook that has long run past its time.

Recently, however, public disaffection with these institutions of global governance has emerged, associated with their inability to stem the tide of slow growth, persistent poverty, incessantly rising global inequality, increasing migration, social fragmentation, job insecurity resulting from technological change and automation, and the inability of the institutions to prevent global economic crises.

Following the collapse of the Bretton Woods System, these institutions became agents of structural reform for debt-ridden developing countries, with loans as the inducement and ill-suited conditionality as part of the interest payments. Painful austerity measures became centrepiece of these structural adjustment programs, with the institutions arguing that such measures were necessary to limit the risk of needing another bailout in the future.

In turn, while the attention of the institutions has turned towards developing economies, these economies have little voice in influencing the direction of the institutions. Every President of the World Bank has been an American citizen, with the exception of Bulgarian Kristalina Georgieva who served as Acting President for 2 months in 2019. The Managing Directors of the IMF in turn have all hailed from Europe throughout its history. The WTO, where developing economies have some bargaining power, has been largely ineffective and has delivered disappointingly few notable agreements. Since its establishment in 1995, it has failed to conclude a single trade-negotiations round of global trade talks, missing an opportunity to serve collective interests.

The difficulties arising from the lack of representation and ineffectiveness in addressing pressing global issues have aggravated the impact of the pandemic. As the pandemic now ravages through developing and emerging economies, they find themselves with increasingly limited access to medical supplies. At least 75 countries globally have implemented export restrictions on medical supplies and medicines,[1] while foreign aid is also drying up as advanced economies face budget deficits. Endowed with inadequate health infrastructure, this inability to acquire supplies is deepening the extent of the health crisis that the pandemic is causing.

A similar fate awaits the production and distribution of vaccines and a cure, if and when found. In the absence of a global allocation mechanism, the vaccine is unlikely to be accessible to the poorest nations, at least in the early stages, as producing countries are likely to prioritise their own citizens, and export to the highest bidder. There has been no indication so far that the institutions are able, or even willing, to facilitate global cooperation on such matters.

Neither do these institutions seem prepared to deal with the economic and financial fallout resulting from the pandemic and lockdowns. Their response has been weak and inadequate. Countries, emerging economies in particular, are confronting extreme budgetary constraints as they struggle to revive their economy in the face of a deficient demand and disrupted supply chains. The institutions have been active. The World Bank is running limited programs targeted at supporting the health sector. Debt relief has also been granted to some countries under the IMF’s revamped Catastrophe Containment and Relief Trust, and some emergency funds have been availed through its rapid finance instrument. However, as Brad Setner notes, all countries are not eligible for such assistance, and not all may even seek it, particularly when they accompany standard conditionality. Moreover, the Fund has $500 billion in spare balance sheet capacity that it is unlikely to ever use, and could yet find creative ways to use it.[2] The pandemic has thus brought these underlying issues to the fore.

Writing at the turn of the century, Joseph Stiglitz noted that since in the services they provide, these institutions are monopolies or near-monopolies, external market discipline cannot provide its usual check.[3] Not much has changed in twenty years since, no other multilateral institution can compete with these. Several flaws and failures have consequently persisted, including conditionality, which has persevered through the test not only of time, but also of theoretical advancements and empirical data that have strongly challenged it.

However, the world has changed drastically, and the institutions have not been able to keep up. If emerging economies, particularly China and India, are not permitted a greater role in global governance, such governance is bound to be ineffective. As these traditional institutions become increasingly unpopular, developing economies may begin looking for new tools for multilateral economic coordination. As it did in 1944, the nature of the crisis will open up opportunities to shape a new global economic system, and countries may turn to alternate institutions such as continental and regional development banks. Regional, rather than global, trade deals have already become a feasible manner of reaching trade agreements, as hope for unanimous agreement at the WTO burns out.

Massive reforms have subsequently become a precondition for effective policymaking and governance for the post-pandemic era. The institutions must catch up with the current moment. Multilateralism must reflect the ways in which the world is different now. Entering the new world with the same outdated playbook is unlikely to lead to different outcomes. The reforms must abandon the dogma of austerity and must do away with market-friendly adjustments and incentives for private investments as the means of development finance. Countries in the Global South must be given a fair share of representation and a voice at the table. Structural factors that have driven poverty traps and debt vulnerability must be addressed. Provisions to tackle climate change and job insecurity associated with artificial intelligence and technological change are necessary.

Discourse surrounding these reforms must commence immediately. These institutions, that were themselves established before the end of the world war in anticipation of the future, must reform before the pandemic has settled. These reforms must come through not only for a post-pandemic world, for there will not be a specific date or event when the pandemic “ends”, but as the ways in which the institutions come to the assistance of individual states and the global economy will determine the role they will play in the post-pandemic world.

In his opening speech at the Bretton Woods Conference, Henry Morganthau said that institutions would facilitate "[the] creation of a dynamic world community in which the people of every nation will be able to realise their potentialities in peace". As we walk through the portal into the next world, we finally have the long awaited opportunity to reshape the institutions to truly empower every nation to realise their potential. We need to now muster the motivation and some imagination.

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[1] https://www.globaltradealert.org/reports/52
[2] https://www.cfr.org/blog/what-role-should-imf-play-responding-covid-19
[3] Stiglitz, Joseph. (1999). The World Bank at the millennium. *Economic Journal*,109, F577– F597.

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*Mr. Mrugank Bhusari is a postgraduate student at Tufts University. He is currently doing an internship at BIPSS.