A New Bretton Woods?
Reflections on Emerging Countries’ Impact on the Multipolar
Distribution of Power

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Paper prepared for the 22nd IPSA World Congress in Madrid, July 8-12, 2012
Abstract

The downgrade of America’s credit rating, the euro area crisis, and the impressive recovery and development of some emerging economies during the economic and financial crisis, have signalled both an acceleration of the shift of the economic power away from the West and a change in the global economic landscape in which less developed economies prove to be more robust and resilient than their more advanced counterparts. The paper reviews some proposals put forward in relation to the end of the unipolar moment as well as a few descriptions of the current distribution of power. Reminding the uncertainties of the emerging multipolarity, the variable geometry of the generic concept of emerging powers, and the rising powers’ significant impact upon the global economic landscape, the research scrutinizes the reform process to address changes in policy, regulations, oversight, and enforcement of financial rules under the G-20 umbrella and to secure emerging and developing economies a greater voice and representation in international financial institutions. It suggests that the process of establishing a new Bretton Woods has three parallel tracks, i.e. an enlargement of the ‘basket of currencies’ on which the SDR is based to all major economies, a tentative international monetary system based on a dollar-renminbi-euro triad (or, at least, on dollar and renminbi), and a right match between the developing countries’ weight in the global economy and their power and influence in global economic governance structures. It pinpoints three scenarios as far as the evolution of the international monetary system is concerned and it suggests that the most likely in the medium term is the multipolar scenario. The paper emphasizes the fact that the process of expansion or rebalancing of most of the global financial authorities that play a role in financial regulation is seen as insufficient by key emergent powers and argues that the level of embedment of developing and emerging powers in global economic governance structures is a crucial factor for the outlook of the future world order.

Key words: Bretton Woods, G-20, developing and emerging powers, multipolarity, multilateralism, economic global governance

The End of the Unipolar Moment & the Rise of the Rest

By the end of the Cold War, Kremlinologists emphasized both the imperial overstretch syndrome from which the Soviet empire was suffering, and the draining of resources by the Soviet military-industrial complex – two circumstances that have accelerated its breakdown. It is interesting to note that after the Soviet invasion of Afghanistan in 1979, throughout the 1980s the fear was that the other superpower of the bipolar era, the United States (U.S.), may also decline – precisely due to the same syndrome and Reagan Administration’s skyrocketing military spending.
A sort of triumphalism expressed in phrases such as the ‘end of history’ (Francis Fukuyama) and the ‘new world order’ (President George Bush senior), has infused the foreign policy of successive U.S. administrations in the post-Cold War era, regardless their political standpoint, prompting this fear to vanish, although the reality which generated it in the first place had acquired unprecedented proportions. Considered to be the winners of the Cold War and the undisputed world hegemonic power in the post-Cold War era, the U.S. has forgotten the imperial overstretch lesson provided by its former Cold War adversary and ultimately has fallen victim to its own success, being required to intervene in places more and more difficult to manage from a security point of view, where its troops were met with increasing hostility. As argued by the former U.S. ambassador to the USSR, Jack Matlock, the end of the Cold War reduced rather than enhanced America’s power and its ability to lead. The myth that the U.S. effectively won the Cold War distorted America’s foreign policy during the Clinton and particularly Bush-Cheney administrations. It led to self-assurance that the U.S. did not need allies, international organizations, or diplomacy, but could dominate the world at will by using its military power unilaterally. What's more, the U.S. allies were less willing to accept a leadership that seemed increasingly to ignore their interests, the end result being a weakened America (Matlock, 2010).

In managing the post-Cold War ‘unipolar moment’, the 9/11 events provided a powerful image of a ready-made foe to catalyzing worldwide energies and the needed purpose and will to enforce a strategy of preponderance that would satisfy U.S. interests and values without offending those of its allies and partners. Although successful, at least in the short term, the strategy led also to the relative estrangement of traditional allies (Germany) and the coming back of attitudes that recall the bygone Cold War on the part of recent partners (Russia).

Letting aside the fact that the unipolar world may have not existed at all, the post-Cold War being rather a uni-multipolar world, with a sole superpower and several other major powers involved in the settlement of key international issues (Huntington, 1999: 36), one would wonder when the unipolar moment has actually ended. Some have looked at the first year of the twenty-first century when three symbolic events took place. First, the 9/11 terrorist attack, which was not only the first attack on the U.S. soil after 1941, but also a symbolic one as the targets were symbols of the military power (Pentagon), economic power (Twin Towers) and political power (White House) of the post-Cold War superpower. Second, the term BRICs (Brazil, Russia, India, China), describing the main emerging economic powers was coined by Goldman Sachs for prospective investors. Third, with China’s entry into the WTO in November 2001, the biggest Asian economy entered the global economic system, symbolically marking the shift of the economic pivot to the East – a process which might look unprecedented to the West, but seen through Asian lenses ‘is a mere return to normality’ (Renard, 2009:13). Others have been inclined to emphasize another symbolic event – the first official summit of the BRICs, which took place in June
2009, in the Russian town of Yekaterinburg, at the end of which the heads of state of the four BRIC countries asked for ‘a more democratic and just multipolar world order’. There also those who consider a set of significant events in 2008-2009 as heralding the close of the post-Cold War era, and the dawn of a new one. Almost concomitantly, we had the Russia-Georgia war in August 2008, symbolizing the resurgence of Russia; Beijing’s successful hosting of the Olympic Games in 2008, symbolizing the resurgence of China; the 9/15 financial crisis, symbolizing the end of American unipolar hegemony; and a bunch of global concerns, emphasizing the need for global efforts to address them (Peng, 2010). Although the latter point is less convincing since nothing extraordinary happened as far as transnational threats are concerned in 2008-2009 and the need for global cooperation in addressing them has been recognized long time ago, the other three points deserve full attention, especially if one adds not only the symbolism of the first official summit of the BRICs, but also takes into consideration the deep roots and global implications of the Russian-Georgian conflict.

Likewise, another symbolic event which triggered a chain reaction and a spill-over effect not only among U.S. competitors, but U.S. allies as well, was Kosovo’s unilateral proclamation of independence in February 2008 and the West’s prompt recognition of it (lest 5 EU Member States). Frustrated by the West’s overriding its opposition to the independence of Kosovo, which was motivated less by its Slavic Orthodox link than ‘to gaining acceptance of the principle that Russia should be heard both because it is a global great power (UN Security Council logic) and because it is a European great power’ (Buzan and Weaver, 2003: 430), Russia chose to retaliate in an area where its interests were directly at stake: the Caucasus. On August 25, 2008, the Russian State Duma passed a motion calling Russian President Dmitry Medvedev to recognize the independence of Abkhazia and South Ossetia. The very next day, Medvedev signed two separate decrees recognizing Abkhazia and South Ossetia as independent states, and called other states to follow its example. In fact, Russia used its separatist allies in Georgia to gain diplomatic advantage over the Georgian leadership, which was seeking Membership Action Plan (MAP) with NATO. A key country of EU’s Eastern dimension of the European Neighbourhood Policy (ENP), Eastern Partnership ( EaP) and Black Sea Synergy (BSS) EU-led initiatives, Georgia prior to the Russian-Georgian war was also contemplated to be granted NATO’s MAP. However, although vocally heralded prior to the 2008 NATO summit in Bucharest by the U.S. President George W. Bush, the granting of MAP status to Georgia and Ukraine was denied by Germany and France, vitally interested to maintain good relations with their key energy provider, Russia. It was the first time in NATO’s recent history when the political will of the U.S. was opposed by chief European allies. Thus, not only the West’s recognition of Kosovo’s independence backfired like a boomerang for its long-term interests in Georgia, but the episode led to a renewed tension in the transatlantic relationship, emphasizing in an explicit way the fact that key European allies are not willing anymore to take the U.S. leadership for granted.
It goes without saying that all such dates are symbolic. In reality, all profound shifts that are shaping the present and future worlds are long-term trends. In any event, by the end of the second term of the Bush administration, against the backdrop of the war on terror, the global reach of American interventionism and the global financial and economic crisis, the decline of American power has become a recurring theme in most analyses devoted to the U.S.

Fairly quickly a relative consensus has emerged about an unavoidable and unalterable shift of power from the U.S. and Europe towards the rising powers in Asia (Kose and Prasad, 2010: 1), i.e. a move from an American-led Western world towards a post-American and post-Western world (Zakaria, 2010:1; Serfaty, 2011: 7), although there are still voices which dispute this idea (Cox, 2011: 416-424; Van Agtmael, 2012). Without an actor willing and able to affirm its prevalence, or to share it with co-partners and rivals, the unipolarity has been substituted by a distribution of power which has been labelled ‘nonpolarity’, ‘apolarity’, ‘de facto zero-polarity’, or ‘interpolarity’ (Haass, 2008; Ferguson, 2004; Serfaty, 2011: 8; Grevi, 2009). Whereas the nonpolar world is ‘a world dominated not by one or two or even several states but rather by dozens of actors possessing and exercising various kinds of power’ (Haass, 2008: 44), the interpolar world’s key characteristic is ‘multipolarity in the age of interdependence’ as far as economy, energy and environment are concerned (Grevi, 2009: 9).

Although we are not there yet, it has become clear that the world is moving towards multipolarity. What it is still not clear is if the incoming 21st century order would be one of true multipolarity, one of asymmetrical multipolarity, with only a few dominant powers, seconded by other major, regional and local powers, or one of ‘multi-multipolarity’, in which the power would be diffused both at the global and the regional level (Friedberg, 1993/1994: 5-33). Even more uncertain is the nature of the relationships between these various actors, i.e. if the multipolarity would be a competitive or cooperative one (Renard, 2009: 7). The uncertainty becomes even more evident when one takes into account the variable geometry of the generic concept of emerging powers. Besides the BRICs and then the BRICS, with the latecomer South Africa joining the club, we have the BRIC plus, which include Brazil, Russia, India, China, Egypt, Indonesia, Iran, Malaysia, Mexico, Nigeria, Philippines, South Africa, Thailand and Turkey, the BRIICKs, which include Brazil, Russia, India, Indonesia, China and South Korea, the BIC or RIC (depending on which country is seen as the weakest link in the BRIC) and even the BRICSAM countries, which include besides the BRICS, four key ASEAN (Association of Southeast Asian Nations) countries such as Indonesia, Malaysia, the Philippines, Thailand and Mexico (Cooper, Antkiewicz and Shaw, 2006; Agarwal, 2008; Renard, 2009; World Bank, 2011: 13). Then we have the IBSA countries, comprising India, Brazil and South Africa, the BASIC countries, including Brazil, South Africa, India and China, the E-7 group of seven countries with emerging economies, including China, India,
Brazil, Mexico, Russia, Indonesia and Turkey, and the N-11 (Next-11) countries, including Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey and Vietnam, as successors of BRIC.

Some of these forums could be hardly seen as blocs or even as forms of cooperation among the countries listed under their acronyms. Take the example of the BRICS, which perhaps epitomizes best the emerging powers, claiming also to represent the developing world. To begin with, BRIC/BRICS emerged from outside not from within the members states. It came into being not due to existing trade relationships or geographic proximity but evolved out of a label put by a New York-based global investment firm on a handful of large emerging countries, leaving constructivists feel reassured. In fact, the differences among the BRICS countries are more conspicuous than the resemblances. The differences in terms of total GDP and per capita GDP, as well as the overall sizes of the economies are quite significant. Although in terms of GDP growth all BRICS have robust rates, China and India fare a little better than the others. Structurally, their economies are also quite dissimilar. Trade between the five is also rather limited, being primarily centred on bilateral relationships with China. Moreover, contrary to expectations that the BRICS countries would be engaged in multilateralism, for the most part they act unilaterally. As they gain political confidence, there are internal disagreements as to the direction of the group, with China and Russia silently competing over its leadership, and India, Brazil and South Africa having already their own South-South club (IBSA) within the forum (Stratfor, 2012: IX-X).

Emergent powers are increasingly aware of their potential to come out as new forces in world affairs. What is not entirely clear is whether they are only interested in joining the hierarchical top of international society or really want to change the hierarchical norms and practices of it. For the most part, regional emerging powers play a dual role: a regional leadership one based on a hierarchical relationship within the region which motivates them to defend their privileges in the prevailing regional power hierarchy; and a revisionist one with regard to the global power hierarchy which make them challenge the current global order. India, Brazil and South Africa (IBSA) highlight the contribution that emerging regional powers can make to the revision of the norms, practices, and outcomes of global governance. These regional powers are revisionist states with regard to the global order, integrating with the global economic system while at the same time trying to revise at least some of its fundamental characteristics. The three regional powers have formed IBSA with the explicit goal of redistributing power, resources, wealth and privilege in the global economy to secure more auspicious results for developing countries (Nel and Stephen, 2010: 71-90). In terms of their struggle for recognition, though, it is not utterly apparent if they ask for recognition for themselves and/or in representation of the Global South. In fact, there may be tension between the recognition of the IBSA countries as new global players by other major powers and the recognition of them as representing the interests of the rest of the South. Anyhow, against the
backdrop of the global economic and financial crisis and the on-going reconfiguration of the global governance structures, the emerging powers and particularly IBSA are on the way to realising their revisionist role with regard to the new global economic order.

Be it as it may, the rising economic powers’ significant impact upon the global economic landscape is twofold. First, the rising economic powers have become increasingly significant generators of world economic growth. Their share of global trade has increased substantially, with South-South trade and investment becoming an important new force in the global economy. These countries, especially from Asia, which is the main target of the transfer of manufacturing capability from advanced countries to emerging powers, now export a diversified range of manufactured goods and are dynamically upgrading their ability to produce more sophisticated and higher value-added products. Second, these emerging economies have become important actors in international financial markets as they have accumulated large volumes of foreign exchange reserves, established sovereign wealth funds, borrowed capital, attracted foreign direct investment, and begun investing some of their assets abroad (Ahearn, 2011: 2).

The global economic and financial crisis has exposed the fragility of developed economies and the dynamism and resilience of a handful of large developing countries led by China, India, and Brazil, accelerating the shift of the economic power away from the West. Four sources of growth have pushed developing economies forward, including capital accumulation, technological catch-up, growing consumption, and natural resource availability (Canuto, 2011). In 2008-2009 China, India and Brazil contributed 70 per cent of global growth. Throughout 2009-2011, they had average growth rates of 9.5 per cent, 7 per cent and 4 per cent, respectively, compared to less than 1 per cent in the U.S. and average negative growth in the EU (Grevi, 2011: 3). Perceived till recently as dependent to their more powerful Western partners, emerging economies now weigh more than Europe in terms of large listed companies’ aggregate value, according to the Financial Times Global 500 rankings (Véron, 2011). In the summer of 2010, surpassing Japan’s economy, the Chinese economy has become the second largest economy of the world. Significantly enough, this happened 15 years ahead of the moment – 2025 – projected at the beginning of the crisis, in 2008, by the National Intelligence Council, the US intelligence community’s centre for midterm and long-term strategic thinking (NIC, 2008: 29). Three out of the world’s five banks by market capitalization are Chinese, including the top two. Between 1995 and 2010 China’s weight in the world economy has more than quadrupled while the other three BRICs have also seen their shares grow (Ahearn, 2011: 5). Whereas in 1995 the BRICs cumulated approximately 7 per cent of global GDP, in 2009 their share more than doubled, reaching 15.5 per cent of global GDP. Whereas some projections deem that somewhere throughout the 2040-2050 decade the BRICs would match the share of the old G-7 in the global GDP, Jim O’Neill, the economist at Goldman Sachs which coined the BRIC acronym, estimates that the BRIC economies together
will outrun in dollar terms those of the G-7 by 2027. By 2025, the economies of six emerging countries – Brazil, Russia, India, Indonesia, China, and the Republic of Korea (the BRIICKs) – will collectively account for more than half of all global growth and will match the combined real output of the eurozone (World Bank, 2011: 3, 13). By 2030, the Chinese economy might surpass the American one. Moreover, by 2050, the nominal GDP of China (calculated at current exchange rates, which takes into account the level of inflation) could be almost 20 per cent larger than the U.S. or even twice as big as that of the U.S., while India could match the America’s level. By that time, other countries, including Mexico, Indonesia and South Korea could rise up to equal levels with most G-7 countries in terms of nominal GDP, even though only Mexico and South Korea will be able to rival them in terms of GDP per capita. These GDP projections should be interpreted with caution as each of the rising economic powers faces internal challenges or obstacles that could easily disrupt the long-term growth projections. However, it is clear by now that the global economic landscape is changing and is changing fast (O’Neill, 2008/2009: 231-243; Renard, 2009: 21-22; Ahearn, 2011: 6-7).

Moreover, emerging countries have accumulated large foreign exchange reserves, two thirds of which are denominated in dollars, which in 2010 amounted to 15 per cent of global GDP (Pisani-Ferry, 2010). These holdings in part reflect the tendency of the U.S. and several other industrial economies to consume beyond their current income or to consume more than they save (Ahearn, 2011: 19). Some of the emerging countries show signs that they no longer support the system by which in order to finance its enormous military expenditures and to cover its balance of payments deficit, the U.S., via U.S. Federal Reserve, print large quantities of dollars and pump them in foreign banks, for the latter to buy U.S. Treasury bills and bonds. Because the dollar has significantly lost value and it requires a current-account deficit, there have been repeated calls for an end to the long supremacy of the dollar as the main reserve currency. In particular, Russia and China have issued detailed proposals for reducing reliance on the dollar as the world’s main reserve currency, and China, Russia, and Brazil talked about using new International Monetary Fund (IMF) - issued bonds to diversify their central bank reserves at the expense of U.S. Treasuries. Emerging powers argue that the reserve status of the dollar allows the U.S. to borrow almost without limit (and, in the process, run limitless trade deficits). Moreover, they say that an international monetary system in which the dollar, the euro, and China’s renminbi (RMB) share the reserve currency role would be an improvement over the current system where countries seeking to accumulate reserves have no alternative to accumulating dollars (Richburg, 2011). China is the largest holder of financial assets in U.S. dollars worldwide. In 2010, with $2.8 trillion of foreign exchange reserves, China accounted for 66 per cent of all developing economies’ exchange reserve holdings. China is also the largest holder of U.S. Treasury securities. In May 2011 with $1.2 trillion in holdings, China accounted for 25 per cent of total foreign holdings and 50 per cent of developing country holdings. Since it is the most important world creditor
and it is on the brink to become the main exporter worldwide, China is concerned about the potential inflationary risk of the U.S. Federal Reserve printing money without respite.

**A New Bretton Woods?**

In addition and in close interdependence to the above-mentioned power shift, the global financial and economic crisis has also reinforced the trend with regard to the reconfiguration of the global financial and economic order. As pointed out by the Stiglitz Commission\(^1\), the current international monetary system, with flexible exchange rates between major currencies, the dollar as the main reserve currency, and free international capital flows, as it does not provide for any disciplines on both surplus and deficit countries and puts the burden of adjustment exclusively on the latter with the exception of countries that issue reserve currencies, has failed to achieve the smooth adjustment of payments imbalances. Perhaps what is more important, it is widely recognized that the role of the dollar as the focal means of international payments has played a major role in the build-up of the global disequilibria which led to the current financial and economic crisis.

Against the backdrop of the crisis, calls for remaking the international economic and financial institutional architecture as to more adequately reflect changing economic weights in the world economy and be more responsive to future challenges have been frequently addressed. Moreover, the BRICS countries have discussed proposals for alternative currencies to the U.S. dollar, establishing a new bank for investment in the developing world and shifting attention form the traditional global economic powers to the emerging markets, particularly in the east and south. The uneasy prospects of the developing world creating its own financial structures and economic links put pressure on the West to accelerating the refurbishing the Bretton Woods system. The reform process under the G-20\(^2\) umbrella to address changes in policy, regulations, oversight, and enforcement of financial rules and to secure emerging and developing economies a greater voice and representation in international financial institutions has been labelled by some a new Bretton Woods, and by others the Bretton Woods II or the Bretton Woods 2.0 (Nanto, 2009: 6, 65). The first in this series was the G-20 summit on financial markets and the world economy held on

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\(^1\) Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System also known as the Stiglitz Commission.

\(^2\) The G-20 is an informal forum that promotes dialogue between the biggest industrialized economies and rising emerging powers on key issues related to global economic stability. It is made up of the finance ministers and central bank governors of 19 countries, including the G-8 (US, UK, France, Germany, Japan, Canada, Italy, and Russia) and the G-11 (Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea, and Turkey) plus the European Union, who is represented by the rotating Council presidency and the European Central Bank. After the outbreak of the financial crisis in autumn 2008, the G-20 was elevated from a forum of finance ministers and central bank governors to a gathering of heads of state.
15 November 2008 in Washington, DC., shortly after the Lehman Brothers collapse.

This major overhaul of the global economic and financial architecture has currently three parallel tracks, each of them having its pros and cons, its opportunities and limitations, its strengths and weaknesses. The first track is focused on the ‘coming back’ of the SDR and the enlargement of the ‘basket of currencies’ on which it is based to all major economies. But as yet, there is no quasi-liquid market for the SDR, and the IMF is not a global-level central bank, i.e. a lender of last resort.

As early as October 2008, just prior to the first G-20 summit, the former UK Prime Minister Gordon Brown was reported saying that the world needs ‘a new Bretton Woods’, i.e. ‘the renewal of our international institutions to make them effective early-warning systems for the world economy’ and that he would like ‘to see the IMF reformed to become a ‘global central bank’ closely monitoring the international economy and financial system’ (Brown, 2008; Winnett, 2008). Later on, just prior to the G-20 London summit on April 2, 2009 the Governor of People’s Bank of China Zhou Xiaochuan sharply criticized the reserve status of the U.S. dollar and proposed the first tentative plan for replacing the US dollar’s role as the world reserve currency (Pettis, 2009: 3). He suggested extending the ‘basket of currencies forming the basis of SDR valuation to all major economies and set up a settlement system between SDRs and other currencies so they could be used in international trade and financial transactions. Countries would entrust a portion of their SDR reserves to the IMF to manage collectively on their behalf and SDRs would gradually replace existing reserve currencies’ (Anderlini, 2009). The suggestion to strengthen the role of the SDR was rather welcomed than opposed by Mr. Timothy Geithner, current U.S. Treasury Secretary and former President of the Federal Reserve Bank of New York. Accordingly, the G-20 London summit decided a $250bn SDR allocation, which would increase global liquidity in the world economy and endorsed the proposal of a countercyclical issuance of SDR. The major inconvenience of the G-20 proposal is the fact that the new SDR would be distributed in accordance with the current quota-shares of the IMF member states. Consequently, the developing and transition economies, which badly need liquidity support from the IMF, would get less than 37 per cent, and the low-income countries less than 8 per cent, while the G-7 countries, which do not need liquidity support, would get over 45 per cent. Therefore, any reform of the international monetary and financial system geared at making the SDR a global reserve medium would have to address first the issue of SDR allocation (UNCTAD, 2009: 123, 125-126). Moreover, in order to create the critical mass for the SDRs to become a world reserve currency,

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3 SDR is an international reserve asset created by the IMF in 1969 to supplement its member countries’ official reserves. In addition to its role as a supplementary reserve asset, the SDR serves as the unit of account of the IMF and some other international organizations. Currently, the value of SDR is based on a basket of four key international currencies – the U.S. dollar, the euro, the British pound, and the Japanese yen.
some 3,000 bn SDR allocation would be needed. A solution would be to create a ‘substitution account’ at the IMF denominated in SDRs as to create the possibility for central banks to convert their dollars in SDRs. But a more logical one in order to reflect the on-going economic power shift would be to include in the current ‘basket of currencies’ of the SDRs the currencies of emerging economies and to link the SDRs with the cycles of key raw materials such as aluminium, iron, gold or crude oil as to better reflect the evolution of their prices (Reisen, 2009).

Be it as it may, reporting the G-20 decision to raise $1.1 trillion in new resources largely at or through the IMF, and to set up the Financial Stability Board as a successor with a strengthened mandate to the Financial Stability Forum (Nanto, 2009: 97-103), the Telegraph commented: ‘the G20 leaders have activated the IMF’s power to create money and begin global ‘quantitative easing’. In doing so, they are putting a de facto world currency into play’ (Evans-Pritchard, 2009). At that time, the idea seemed far-fetched, although more or less similar proposals, such as the ones proposed by Keynes at the Bretton Woods negotiations on post-war monetary arrangements revolving around the idea of a world unit of currency and setting up an International Clearing Union, or the Stiglitz Commission variant of setting up a new ‘Global Reserve Bank’ able to issue a global unit of currency had been put forward in the past. (UNCTAD, 2009: 121-123). In light of the IMF decision of July 2009 to allow the issuing of securities denominated in SDR to draw in resources from some emerging economies (Brazil, China and Russia) and particularly the G-20 decisions at its Washington summit in April 2011 to work on a ‘criteria-based path to broaden the composition of the SDR’, as well at its Cannes summit in November 2011 to review in 2015 the currency basket of the SDR, as to strengthen its attractiveness, which, in turn would ‘influence its role as a global reserve asset’, the notion of SDR playing in future the role of a de facto world currency doesn’t seem so implausible anymore (Grevi, 2011: 4).

The second track of establishing a new Bretton Woods would be to base the international monetary system on a dollar-renminbi-euro triad (or, at least, in case of a deepening of the euro crisis, on dollar and renminbi). But in the eurozone the countries are not homogenous and the risks are quite different, and the RMB is deemed not to succeed in its internationalisation process until China fully opens its capital and financial accounts, makes its exchange rate flexible and liberalises its financial sector. China will be required to make far-reaching changes, including opening its financial market to foreign investors, revalue its currency and de-linking it to the dollar, restructure its economy away from exports, and away from manufacturing in favour of services, and consume more. This deep restructuring process entails significant economic, social and political costs and might take decades to occur (Kissinger, 2011: 663-664). However, other financial experts claim that these obstacles could be circumvented with the help of the development of the RMB offshore market, which is primarily located in Hong Kong but likely to extend to other financial centres such as Singapore.

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4 The solution was first discussed in the late 1970s.
even London. In fact, since 2009, China has already taken steps towards the RMB internationalisation. Initiatives in this direction include RMB cross-border trade settlement, the issuance of RMB-denominated bonds in Hong Kong, the establishment of an offshore RMB market, the settlement of overseas direct investments in RMB, and an expansion of the so-called ‘qualified foreign institutional investor scheme’. Furthermore, China has also taken steps to increase its role as a provider of last-resort liquidity by participating in the Chiang Mai multilateralisation process and entered RMB-based bilateral swap agreements with six countries in 2008-09, which were joined by two additional countries in 2010 and two more in 2011 (Angeloni, Bénassy-Quéré, Carton, Darvas, Destais, Pisani-Ferry, Sapor and Vallée, 2011: 79). Somewhere around 2019-2022, it is deemed that China would be able to raise the status of the RMB over and above that of the yen or even possibly the British pound or Swiss franc. Moreover, if China would adequately respond to all multiple challenges facing its path towards internationalisation and would take all the necessary policy choices in that respect, by 2027-2033 the RMB could become a very serious challenger to the euro and by 2037-2042 it could overtake both the euro and the dollar as the hegemonic currency (Vallée, 2012: 1, 33-4).

A joint team of experts from the Bruegel think tank in Brussels and the Paris-based Centre for Prospective and International Information Studies outlined three scenarios as far as the evolution of international monetary system is concerned. The first scenario assumes the continuation of the on-going policy efforts to improve the functioning of the current system organised around the U.S. dollar through incremental reforms (the repair and improve scenario). The second scenario envisages that the U.S. dollar remains the main key international currency, but the euro and the RMB (or only the latter) also play a key role in the international monetary system as reserve currencies, anchor currencies and on international markets for goods and assets (the multipolar/bipolar scenario). The third scenario posits renewed, possibly crisis-led, steps towards building a multilateral international monetary order. According to it, since neither the RMB nor the euro emerge as major international currencies, the need for diversifying official and private reserves is met by the emergence of the SDR as a widely used quasi-currency (the renewed multilateralism scenario). In terms of likelihood, the first scenario is the most likely in the short term, the second scenario is the most likely in the medium term (10-15 years), and the third is the most unlikely, due to the current appetite for international cooperation, but it could emerge at a later stage, as a consequence of a deep dollar and/or euro crisis or a major fracture over exchange rates. Although all three scenarios would offer improvements compared to the current system, the multipolar one would best correspond to structural changes in the world economy and mitigate some (although not all) of the imperfections of the current system. But in order to increasing the international status of the euro,

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5 The ‘qualified foreign institutional investor scheme’ allows selected international investors access to Chinese A shares denominated in RMB on the stock exchange, up to a fixed quota.

6 Centre d’Etudes Prospectives et d’Informations Internationales.
major changes would be needed, including further governance reform, the setting up of a Eurobond market, and the reorganization of external representation. From the perspective of the eurozone, whereas the second scenario would be preferable to the first one, the third one would be the most desirable and for the most part congruent with the euro area’s intrinsic principles. Since the internationalisation of the RMB would be stabilising for the euro/dollar exchange rate, the euro area could benefit from a move to a bipolar system around the dollar and the RMB (Angeloni, Bénassy-Quéré, Carton, Darvas, Destais, Pisani-Ferry, Sapir and Vallée, 2011: 2-3, 56-77).

Significantly enough, the most likely scenario – the multipolar one – is confirmed by early estimates of U.S. National Intelligence Council at the beginning of global financial crisis, in accordance with which there would likely be a ‘move away from the dollar’, the U.S. currency being downgraded from its status of international reserve currency to ‘something of a first among equals in a basket of currencies by 2025. This could occur suddenly in the wake of a crisis, or gradually with global rebalancing’ (NIC, 2008: 11-12, 94).

The third track of establishing a new Bretton Woods would be to rightly match the emerging and developing countries’ weight in the global economy with their power and influence in setting the rules and institutional arrangements of the world economy. Emerging powers see existing arrangements as preserving the status quo and maintaining U.S. and, particularly, European power at the expense of developing countries. They deem that major governance reforms are needed, translating in particular to changes in quotas, voting rights, executive board representation and transparency in the management selection process. They would want to have a greater say in the restructuring of global economic governance. To date, the set up of the G-20 as ‘the premier forum [...] for international economic cooperation’7 is the most promising recognition of the problem and institutional response to it (World Bank, 2011: 152-153). To some, it is also a symptomatic example of a significant post-Cold War development in global governance labelled informal global governance or ‘multilateralism light’ (Pentillä, 2009: 1).

The presence of large emerging countries into the G-20 and its rise as the dominant forum of international economic policy coordination has triggered a parallel expansion or rebalancing of most of the global financial authorities that play a role in financial regulation. This included the April 2009 transformation of the Financial Stability Forum, which like the G-20 was created in 1999 following the Asian crisis, into the Financial Stability Board (FSB) and the expansion of its membership from 11 countries (8 Western countries plus Japan, Hong Kong and Singapore) to 24 countries (of which 10 are emerging economies in addition to Hong Kong, Singapore and South Korea). Likewise, at its London and Pittsburgh 2009 summits, the G-20 agreed on four measures towards improving IMF governance: a 5 per cent shifting of votes towards under-represented countries,  

i.e. the emerging and developing countries; accelerating the forthcoming general quota review; the election of the IMF’s managing director upon qualifications instead of regional origin; and implementing the quota and voice reform package that was first discussed at the IMF’s 2006 annual meeting in Singapore and approved in April 2008 by the IMF’s Board of Governors (Menkhoff and Meyer, 2010: 3-5). Furthermore, in March 2009, the Basel Committee for Banking Supervision expanded from 13 member countries (all developed economies) to 27 (of which 10 are emerging economies, plus Hong Kong, Singapore and South Korea). The Committee on the Global Financial System, also in Basel, expanded at the same time from 13 to 22 countries including Brazil, China, Hong Kong, India, Mexico, Singapore and South Korea. The IFRS Foundation Monitoring Board, which oversees the IFRS standard-setting by the International Accounting Standards Board (IASB), was initially established in January 2009 with only the US, the EU and Japan directly represented. However, starting April 2010, the IFRS Foundation Monitoring Board has started a review of the governance structure supporting the International Financial Reporting Standards (IFRSs). In February 2011, a report on the on-going restructuring process recommended, among other things, efforts to improve identification of candidates to ensure IASB membership from diverse geographical and professional backgrounds, and the expansion of the Monitoring Board membership to 11 members, focusing on increased representation from major emerging markets. Accordingly, four new members primarily from major emerging markets would be added on a permanent basis and two additional seats would rotate amongst authorities not permanently represented (IFRS Foundation Monitoring Board, 2011: 2-3). More significantly, in the spring 2010 meetings, the World Bank approved a transfer of 3.13 per cent of voting power from the developed economies to the developing and transition economies, which will now hold 47.19 per cent of voting power and have received a promise that they will reach parity in the near future. In its turn, the International Monetary Fund (IMF) in December 2010 adopted a noteworthy realignment of its quota shares resulting in the presence of the 4 largest emerging economies (Brazil, China, India and Russia) among its 10 largest shareholders. Overall, it is deemed that G-20 has fulfilled its pledge for the reform of the two major institutions for global economic governance, increasing quota shares of developing and transition countries by almost 6 percentage points in the World Bank Group and IMF and agreeing for changes in governance structure (Véron, 2012: 3; Gradziuk, 2011: 3; Ocampo and Griffith-Jones, 2010: 5).

Although the IMF, the World Bank, and the WTO have taken important steps to increase representation to reflect the shift in economic power toward developing countries, many rising powers remain unsatisfied. Institutions such as the Bank for International Settlements (BIS) and International Accounting Standards Board (IASB) are behind the curve in giving adequate representation to China, India, Brazil and other rising powers. Additionally, further reforms are needed at the level of IMF, World Bank and G-20. These include a further redistribution of quotas in the IMF to reflect changes in the global political economy while
maintaining the quota shares of over-represented developing country members; a more equitable representation of developing countries on the IMF Executive Board by merging some European seats into a single Eurozone seat; a reconfiguration of the selection procedures of the head and staff positions at the IMF and World Bank as to allow appointments to such positions through an open, transparent and merit-based process; a further improvement of representation of developing countries in the G-20; and a possible relocation to Asia of, at least, the secretariats of some of the Basel-based committees, including the FSB, and of the IFRS Foundation, which hosts the IASB (Kirton, 2010: 4; Draper and Dube, 2010: 3-4; Menkoff and Meyer, 2010: 12; Véron, 2011).

Currently two diverging tendencies are at work as far as the relationships between developed and developing and emerging powers are concerned: On the one hand, the expansion or rebalancing with large emerging countries of most of the global authorities that play a role in financial regulation and the rise of new transnational forces and multilateral institutions; on the other hand, a set of global governance and effective multilateralism failures (e.g. over UN Security Council reform, the WTO Doha Round, climate change, etc), and increased tensions developed in the military field, particularly in Asia, as well as in relation to the geopolitics of energy. The two tendencies point to very different directions of the evolving future world order. The first one points to a more normative and relatively stable order in which international and multilateral institutions - formal or informal - become increasingly significant. The second one points to a new balance-of-power system without a global hegemonic power, a less normative and relatively unstable future world order, recalling earlier historical episodes. In order to secure the prevalence of the first tendency over the second and eventually to shape a stable multilateral-based word order, the level of embeddedness of developing and emerging powers in economic global governance structures remains a decisive factor.

Conclusions

Fuelled by the global economic and financial crisis, the current rethinking of the financial institutional architecture as to secure emerging and developing economies a greater voice and representation in international financial institutions stay in sharp contrast with what was regarded throughout the 1990s as the ‘unipolar moment’. Although in relative decline, as compared with the empowerment of the ‘rest’, the U.S still prevails over allies and opponents alike as no other country matches its hard, soft and smart power.

Currently, the tentative establishing of a new Bretton Woods follows three parallel tracks. At the level of international monetary system reform, it is focused on enlarging the ‘basket of currencies’ on which the SDR is based to all major economies and the possible setting up of a system based on a dollar-renminbi-euro triad (or, a least, in case of a deepening of the euro crisis, on dollar and renminbi). At the institutional level, it is focused on matching the emerging and
developing countries’ weight in the global economy with their power and influence in global economic governance structures.

Depending on how successful the efforts at restructuring the international monetary system are, three scenarios could be envisaged: a repair and improve scenario, a multipolar/bipolar scenario, and a renewed multilateralism scenario. Whereas the first scenario is the most likely in the short term, and the second one is the most likely in the medium term, the third one, although the most unlikely, could emerge at a later stage, as a consequence of a deep dollar and/or euro crisis or a major fracture over exchange rates.

In the ongoing debate on how to integrate rising powers into global economic governance structures arguments such as their supposed non-readiness and their rivalry and competition with the West are downplayed by a growing awareness of the need for the West to act through inclusive leadership having as criteria their willingness to assume responsibility and ability to solve common problems. The real danger for the West would be emerging powers to increasingly act outside of global institutions. Consequently, the level of embedment of developing and emerging powers in economic global governance structures is a crucial factor for the outlook of the future world order.

References


