Bretton Woods 2.0: The Need for a 21st Century Upgrade

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Ten years on from the global financial crisis, we are witnessing seemingly contradictory phenomena in global development. Technological innovation has shortened the distance for commerce and communication, yet these activities are being threatened by restrictive policies enacted in the interest of national security and cyber sovereignty. A decade-long recovery has introduced new growth opportunities for both developed and developing countries, yet ‘unbalanced growth’ has become a mantra in global discourse.

To resolve these contradictions, Bretton Woods institutions are supposedly endowed with a reputation for impartiality as global organizations, which liberates them from the confines of ideology. At the same time, Bretton Woods needs to regain confidence in asserting and implementing its own vision of global development. This requires an ‘upgrade’ of the vision that takes into account the rapid social and technological changes occurring in the 21st century. There are two examples where upgrades have gone half-way and are in need of completing.

Consider the example of digital trade. Since 2010, various countries have passed restrictive measures on cross-border data flow and source code requirements. These measures will have serious repercussions on global growth, especially in the service sector. This is a serious concern because the service sector has the most potential to benefit from developments in digital trade. Services also remains a main driver of productivity for both high income countries and countries aiming to escape the so-called ‘middle-income trap’. Fairness, a core value of the Bretton Woods’ vision for global trade, is thus wanting in the digital realm.

However, the WTO’s rulebook does not clarify the validity of these measures, and is therefore unable to adjudicate relevant cases which are bound to arise in the future. It needs to fill this legal vacuum as soon as possible. This will entail substantial revision of the General Agreement on Trade and Services, set in the last century, to include what has already been guaranteed in the offline realm: online consumer protection, the abolition of e-commerce customs duties, and the free flow of data across borders.

In fact, the WTO has already made progress on addressing some of these concerns in 2017: it successfully amended the TRIPS Agreement in January, and two-thirds of its membership have ratified the Trade Facilitation Agreement in February. This gives hope to the institution’s potential to set the global rules for fair digital trade. The Agreements also assuage concerns that

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the WTO’s negotiating function has failed to produce meaningful results since the Doha Round began in 2001.³

A second example is reforms in loan conditionality. The Bretton Woods institutions’ conditions on loan provision to distressed and developing economies have been accused of promoting unbalanced growth. This has in part led to the rise of ‘no strings attached’ alternatives to IMF and World Bank funding in recent years. These alternatives are attractive to recipient countries because they could lead to quicker returns and growth without incurring the costs of domestic institutional reforms. However they could also unravel long-term economic development, destroy local ecology, exacerbate human rights conditions, and foster corruption.⁴

The biggest challenge for the IMF here is to make a convincing case to recipients for the imposition of conditionality on loans and aid. It must be done without bargaining off or diluting the content of the conditions themselves.

This, among other things, requires a change in how conditionality is presented: it should no longer be presented as merely a set of technical clauses that exchange funding for austerity. Rather, it should be presented as formula necessary for achieving sustainable development. The IMF has always adapted and expanded its loan conditions in order to address increasingly complex issues in a changing global environment.⁵ It has for example expanded the scope of its loan conditions to structural reforms in loans recipient governments that promote not only good policies but good governance. Moving forward, the IMF should also increase its involvement with recipient governments and private capital to mitigate short-term negative effects that the conditions will have on social welfare.

Institutions always have to adapt to changing realities in order to remain effective in guiding those changes. A lack of global guidance in technology and sustainable development in recent years is a call for Bretton Woods to upgrade itself and adapt. It has to forever remain responsive to the problems it might have caused, and also to the problems that it could solve.

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⁵ “IMF Conditionality (Conditionality framework continues to evolve).” International Monetary Fund: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/28/IMF-Conditionality (2016)