



Press Release

23 October 2008

Washington to Beijing via Doha: Time for a New Bretton Woods Conference

Yash Tandon, Executive Director, South Centre, Geneva

The South has not been immune to the financial meltdown of the developed North, but the South's partial decoupling from the North has somewhat lessened the impact. Yet, the existing Bretton Woods institutions continue to favour "globalisation" rather than decoupling.

The writing on the wall is becoming evidently clear: the time has come for a new Bretton Woods-kind of conference (this time probably somewhere in the South – Beijing?).

The upcoming review of the Monterrey Conference on Financing for Development (FfD) to be held in Doha at the end of November is where this move should be kick started. The collapsing financial infrastructure of the North and their banks' undignified rush for their governments' support is hardly an encouraging moment for seeking finances from the North for development in the South. Ironically, the North is already seeking funds from the South (including sovereign wealth funds) to recapitalise their banks.

The reality on the ground has changed.

One aspect of that reality was the end of the cold war and the near monopoly of power in the hands of the only superpower left. The second was the 9/11 event that made America pathologically insecure, and laid the basis for its "war on terror". The shadow of 9/11 formed the backdrop for the launch of the Doha round of trade negotiations in November 2001. Trade liberalisation had become part of the anti-terrorist arsenal. The US had reasoned that those who were opposed to Doha would give solace to the terrorists. A World Bank study at the time had suggested that further global trade liberalisation would lift an extra 300 million people out of poverty by 2015. The Doha Round was the expression of an ultimate faith in the neoliberal ideology of the institutions of global governance that include the World Bank (WB), the International Monetary Fund (IMF), the World Trade Organisation (WTO) and the Organisation of Economic Cooperation and Development (OECD), the club of the rich "donor" countries of the North.

Then came the FfD Conference in Monterrey, Mexico in March 2002. So desperate was the need to defend neoliberal ideology at Monterrey that its collapse in Argentina only a month earlier was calculatedly ignored. Having faithfully followed the Washington Consensus and the dictates of the IMF/WB for over two decades, their “model of development” was simply routed. The economy disintegrated, bringing in its wake political and social crises. Argentina faced \$155 billion debt, the highest in history until then (huge at the time, but small compared to the debt the US economy faces today). But at Monterrey the FfD negotiations went on as if Argentina’s crisis did not exist, and as if the disgraceful demise of the Washington Consensus did not happen. The negotiators from both the South as well as the North decided to close their eyes to Argentina.

That was the “diplomatic truth” of Monterrey. The underlying rationale of the Monterrey “consensus” on FfD was the integration of the South (especially the poor South) in the North-dominated globalised economy, and finance for development was in reality finance for globalization. If development is the objective and finance the means, then Monterrey put the cart before the horse. In the political and diplomatic reality of Monterrey, there was, in fact, no discussion on what constituted development. Development was assumed to be based on the Washington Consensus and the Doha “Development” Round. The Monterrey “consensus” was, in fact, on the financialisation of development instead of on the developmentalisation of finance, which is what was needed.

Financialisation is now in tatters, and so the question: how do we move from the failed experiment of Bretton Woods and of Monterrey to the future?

First it is important to acknowledge that times have changed since 2002. Only those whose heads are buried in the sand will fail to recognise the historical necessity for a fresh start. After every major war, there is reconstruction. This happened at the end of the first and second world wars. A third war, partly avoided on account of the nuclear threat, has taken the form of the North’s “war” on the South in the name of globalisation. But the changed geopolitical reality can no longer be ignored. Here are some of its aspects.

One, the US-dominated unicentric world is now replaced by a polycentric world. The US’ virtual defeat in Afghanistan and Iraq -- wars that have lasted longer than the Second World War -- has shaken American belief in its infallibility, and diminished the South’s awe for the US or for its “coalition of the willing”. The US no longer enjoys the strategic or tactical high ground that it still had at Doha in 2001 and at Monterrey in 2002.

Two, the neoliberal ideology and the Washington Consensus are in tatters. Globalisation, once touted as an inevitable phenomenon, like gravity in physics, is exposed to what in reality it always was – a project of the North to globalise its corporate power. The ships that were supposed to lift with the rising tide of globalisation are sinking; and indeed, the “Titanic US” is wobbling in the sea of global de-financialisation.

Three, the Doha Round in which the North had put so much faith is in the freezer. The South, pushed by pressure by people from below, has successfully hitched its wagon to “development” and brought the trade negotiations back to Doha’s developmental promise. The South has moved the horse in front of the cart. It is a reversal of both Doha and Monterrey. Financing is now, or should be, the servant of development and not its master.

Four, the IMF and the WB are desperately searching for survival strategies. They have become largely irrelevant. The efforts by the OECD to upfront the PDAE is a belated attempt to throw the WB a lifeline. PDAE's endorsement in Accra in September 2008 is a temporary phenomenon. It is a matter of time that its underlying agenda – “that of continuing collective neocolonial control by the North over the aid recipient countries of the South”? – will be exposed. The IMF's belated effort to reform its voting formula in recognition of the new geopolitical reality, and recent proposals in the World Bank for reforms, are a travesty of the “reform” that is actually needed.

Five, climate change has become the hottest issue at least for the North. For the South, it is simply another facet of their continuing development and poverty eradication challenge. One of the most contentious issues on climate change is how to finance the huge costs involved in moving to a new, low-carbon global economy. Once again, aided and abetted by the North, the World Bank is seeking a role by positioning itself to be the conduit for Northern funds for climate financing. But in doing so, it and the North are ignoring the United Nations Framework Convention on Climate Change (UNFCCC) under which the provision of new, additional, adequate and predictable finance from the North is a legally binding commitment to be channeled through the UNFCCC's financial mechanism.

And finally, of course, the meltdown of the global financial infrastructure. It is no ordinary crisis. It is compared to the 1929 Wall Street crisis, but it could be much worse. In 1930 US Congress passed the Smoot-Hatley Tariff Act triggering the Great Depression by creating trade barriers. Today, the Paulson bailout for favoured banks and corporations like the American International Group (AIG) that has followed the Darwinian collapse of ancient behemoths like Lehmann Brothers and Goldman Sachs points to a systemic breakdown that may make the 1929 crisis look like a storm in a teacup.

I leave aside the larger question of what the agenda should be of the next Conference on the systemic reorganisation of the institutions of global economic governance. The immediate question is: what should the leaders of the South be discussing in the corridors of the Doha meeting whilst negotiators are busy crafting a “diplomatic text” that says half truths about the stark reality that the world faces today. Here are a few thoughts.

1. The right to development of nations on their own terms must be the basis of financing for development. National projects should be supported only if they are rooted in local efforts in which all stakeholders are involved.
2. Regional integration of countries in the South (and not Free Trade Agreements between the North and the South) should be the basis of development cooperation. The primary institutions for protection against future market shocks and for credit for development should be regional. Regional banks in Asia, Africa and the Caribbean should carefully monitor the evolution of, for example, the Banco del Sur in Latin America.
3. The BWIs are part of the problem, not part of the solution. In the interim period whilst new institutions of global economic governance are put in place, the BWIs must be made accountable to the Economic and Social Council of the UN.

4. Democratization and closer surveillance, oversight and regulation of international financial institutions (including the Basel Committee on Banking Supervision currently controlled by the Group of 10), and private institutions of credit and capital flows (including hedge funds, private equity funds, and rating agencies) should be an essential feature of the new global financial architecture.

To conclude, the dominant conceptualization of the discourse on “enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development” is seriously flawed. Presently the dominant theory and practice have made development hostage to finance. The cart is before the horse. A correct realignment of the horse and the cart would be a good start to ensuring that finances serve development and not, as it is presently, the other way round. The current tendency of “financialisation of development” has to be reversed into “developmentalisation of finance.” To do this, the Doha FfD Conference must be followed up soon by a new global conference on restructuring the global economic governance architecture.

For more information or to arrange interviews within South Centre:

Vikas Nath, South Centre, tel: +41 22 791 8050, Email: nath@southcentre.org
South Centre, 17-19 Chemin du Champ d’Anier, 1211 Petit-Saconnex, Geneva,
Switzerland, www.SouthCentre.org (English, French, Spanish)