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*Sustaining Trade under Cloudy Prospects*

## **Ukraine War: Will It Lead to a New Bretton Woods?**

*By Pradumna B. Rana and Ji Xianbai*

### **SYNOPSIS**

*Reforms of the 1944 US-led Bretton Woods global economic architecture have been implemented in a gradual and incremental manner. As the global context has changed considerably, can we expect more comprehensive reforms as called for by some? Will COVID-19 and the invasion of Ukraine have game-changing impacts on the global economic architecture?*

### **COMMENTARY**

AT THE historic Bretton Woods Conference of 1944, to address the economic instability of the 1930s, a set of rules-based international economic institutions (IEIs) that are collectively referred to as the global economic architecture (GEA) was established under the leadership of the United States.

This architecture comprised the International Monetary Fund (IMF) for macroeconomic and monetary stability; the General Agreement on Tariffs and Trade – the predecessor of the World Trade Organisation (WTO) to promote trade openness; and the World Bank to provide development finance for poverty reduction. Although it had several critical flaws, the Bretton Woods GEA worked well for more than 60 years arguably until the eruption of the Global Financial Crisis (GFC). It ushered in the golden age of globalisation and brought about economic growth and prosperity all over the world.

### **Gradualist Reform & the Changed Context**

Reforms of this architecture have been implemented in an incremental and gradual

manner. These comprise (i) the establishment of the G7 in 1975 and its upgradation to the G20 summit in the aftermath of the GFC; (ii) a shift to a floating system of exchange rates in 1973 after the collapse of the pegged rates of the Bretton Woods monetary arrangement; (iii) the establishment of the Financial Stability Forum and its upgrading to the Financial Stability Board after the GFC; and (iv) the transitioning from GATT to the WTO in 1995.

More recently, the context in which the global IEs operate has changed in two important ways. First, the unipolar world with the US as the sole superpower has become multi-polar where economic and political power has shifted to some extent to the dynamic emerging markets, particularly those in Asia such as China and India. These emerging markets have sought a greater voice in the operation of the IEs. But the major Western shareholders remain antipathetic to the required changes in rules and policies.

Second, during the Bretton Woods era, policymakers were wary of uncontrolled finance and had imposed restrictions on cross-border flows of capital. In the 1990s, under the so-called Washington Consensus, countries around the world deregulated their capital accounts. Over time, this has produced highly integrated global financial markets and capital flows that have dwarfed the regulatory capacity and operations of IEs.

With financial globalisation, a new type of crisis associated with large capital inflows and their sudden reversals have become more frequent occurring every 10 to 12 years. In addition to instability, financial globalisation has also led to intra- and inter-country income inequality.

### **Calls for Big Bang Reforms: Bretton Woods 2.0?**

Calls have, therefore, been made for a comprehensive reform of the Bretton Woods GEA. In the post-GFC period, a number of academics and politicians had called for a New Bretton Woods (NBW), a wider and more comprehensive reform of the GEA.

These had included Professor Joseph Stiglitz and politicians like Nicholas Sarkozy and Gordon Brown. The then central bank governor of China, Zhou Xiaochuan, had also made a pitch for a new international reserve asset to replace the US dollar and its hegemony.

The calls for a NBW fizzled out at the interregnum stage because the recovery from the GFC turned out to be faster than expected and the world experienced a Great Recession rather than the originally expected repeat of the Great Depression of the 1930s. This led to complacency and dilution of reform proposals.

Similar calls for comprehensive reforms of the Bretton Wood GEA have been made in the wake of the COVID-19 pandemic which has led to the worst global economic downturn since the Great Depression. According to the latest IMF estimate, world output shrank by 3.1% in 2020 as compared to 0.1% in 2009.

[Gallagher and Kozul-Wright](#) have noted that inequality, indebtedness, and insufficient

productive investments have become the new normal and called for a renewed multilateral order. Tinkering with existing rules cannot provide the way out.

[Vines](#) argues that the world now faces two choices (i) revisit the direction of the mid-1940s when ruled based GEA were established or (ii) return to the path of the 1930s when weak cooperation led to an economic depression and eventually a world war. He adds that the crises of this century proves that there is an urgent need for fundamental reform by learning lessons from history.

What lessons can be learned from COVID-19 and the invasion of Ukraine? Will they be game-changing events and lead to the overhaul of the global economic architecture? If so, how?

## **Going Forward**

Looking forward, will the calls for Big Bang reform of the Bretton Woods GEA be realised any time soon? Probably, not. This is because with the recent rise in nationalism and populism worldwide and the on-going conflict between the US and China and the Russia-Ukraine War, the political will to spur global cooperation and coordination is weak and risk of yet another East-West divide reminiscent of the Cold War era world order is genuine.

Under former President Trump, the US had embraced the “America First” policy and protectionism pivoting away from multilateralism of the past to “unilateralism” and “bilateralism”. President Biden is supportive of multilateralism but still many of the tariffs that were imposed on about 20% of total imports of the US remain.

Similarly, European countries had initiated policy actions to protect their economies especially from rising inflows of migrant workers from the Middle East. Countries around the world also retaliated and became more inward-looking. Although it remains an export powerhouse, China has also stressed the importance of domestic market when it rolled out the “dual circulation” policy paradigm. Since 2020, India has also adopted a more self-reliant policy.

Rising nationalism and growing emphasis on economic security have dimmed the environment for global cooperation. Countries are preferring to “go it alone” rather than cooperate with others. Weak political will is the main reason why the G20 has failed to craft a coordinated global response to the unprecedented COVID-19 pandemic. In the medium-term, therefore, reforms of the Bretton Woods GEA are expected to be incremental and gradual rather than Big Bang.

The key focus of reforms should be to provide global public goods in a shared manner by promoting complementarity between global and regional IEIs that have been recently established. The centralised Bretton Woods GEA is gradually moving towards a decentralising GEA with the co-existence of “senior” global IEIs and a plethora of new regional institutions.

The world could be in for a turning point in the wake of the Ukraine War. How the sea-change will emerge remains to be seen.

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