

# Time for a new Bretton Woods

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*Editor's note: China should organize a new Bretton Woods System based on East Asia to maintain global monetary stability, the author suggests.*

In the monetary system organized with US leadership at the end of World War II, currencies were linked to the US dollar, which was linked to gold. The US accounted for over half the world's output of goods and services. By the mid 1950s, all East Asia accounted for only about 4 percent of global output. China's economic reforms began only 30 years ago. By then, the US dollar had begun its decline. Its official convertibility to gold at \$35 was suspended in 1971. Today gold is priced in the market at over \$1,100, and China's foreign exchange reserves exceed \$2.4 trillion.

As the dollar declined over time, US trade deficits increased, challenging economic orthodoxy. Today US debt levels, fiscal deficits and entitlements have climbed to unsustainable levels, leaving the US increasingly dependent on China for credit.

China is under pressure to reduce its trade surplus by revaluing the renminbi - but China is understandably concerned about protecting its investments from a further decline of the dollar. It will appreciate the renminbi in its own good time, as it diversifies its investments and internationalizes its currency. A stronger renminbi would help contain inflation. It would foster domestic consumption and reduce the cost of imports.

But many of China's imports are commodities and components which fuel its exports. A stronger renminbi would facilitate China's foreign direct investments and enhance its economic competitiveness, again challenging western orthodoxy. The US ran trade surpluses with a strong dollar. Floating the renminbi while liberalizing capital controls is no quick fix for the world's monetary instability.

Meanwhile Europe is struggling to contain fallout from Greece's fiscal profligacy, while the US struggles to regulate the bailed-out banking industry which triggered the financial crisis, as debt continues to mount.

The US dollar no longer meets the tests of a reserve currency. It is ubiquitous but not a reliable store of value. In brief, the world has outstretched its capacity for financial governance and monetary stability though the IMF has become more realistic since inflicting its conditions on East Asians during the financial crisis of 1997.

East Asia should become a source of global monetary stability by exercising responsibility commensurate with its control of some 70 percent of the world's foreign reserves.

Japan proposed an East Asian monetary regime in 1997 to defend against currency speculation, extend credit to the afflicted, stabilize exchange rates and develop a regional financial market and Asian currency unit. The Chiang Mai initiative for currency swaps was a modest beginning. Free trade agreements in East Asia are moving forward. The China-ASEAN free trade agreement is a reality.

But there has been little movement on the regional monetary front. The region remains underrepresented in the world's financial institutions. China does not even have a seat on the IMF board. President Obama's recent state of the union address was revealing. It ignored the world as if the state of the union was severable - or the union was in retreat.

The world increasingly looks to China. A Beijing Consensus is an appealing alternative to the Washington Consensus for many outside the shrinking West.

But where is the leadership the US offered the world in 1944 at Bretton Woods? An East Asian monetary regime could anchor a reformed global monetary order with the institutional and financial ability to enforce uniform standards for capital adequacy and transparency, and provide balance of payments financing with realistic conditionalities and expertise.

It might offer sound development assistance for the least developed. A Global Monetary Fund might back a global currency unit or (the dream of Maynard Keynes) a global currency.

Work on East Asian financial regionalism has been underway since the 1997 crisis. Research has accumulated, much of it within the Asian Development Bank and Institute. But many complex issues need to be addressed, including the relationship of the yen and renminbi and the accommodation of countries at different levels of development. The integration of an East Asian regime in a global regime raises more issues. But winds are stirring. A new Prime Minister of debt-laden Japan is speaking warmly of an East Asian "community" and developing ties to China.

Europe's ongoing experience is instructive. It created a central bank and common currency, but not a monetary fund. It may be forced to turn to the IMF. President Sarkozy of France is calling for a new Bretton Woods. The US could lose privileges associated with maintaining the world's reserve currency - but that is its own doing. All countries would gain from global monetary stability. American realists are calling for "new thinking."

China is the great creditor nation today, and will soon have the world's largest economy. It should convene a new Bretton Woods and take the initiative in East Asia and the world, inviting other nations to join it in a cooperative effort to create a new monetary order for a new world.

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