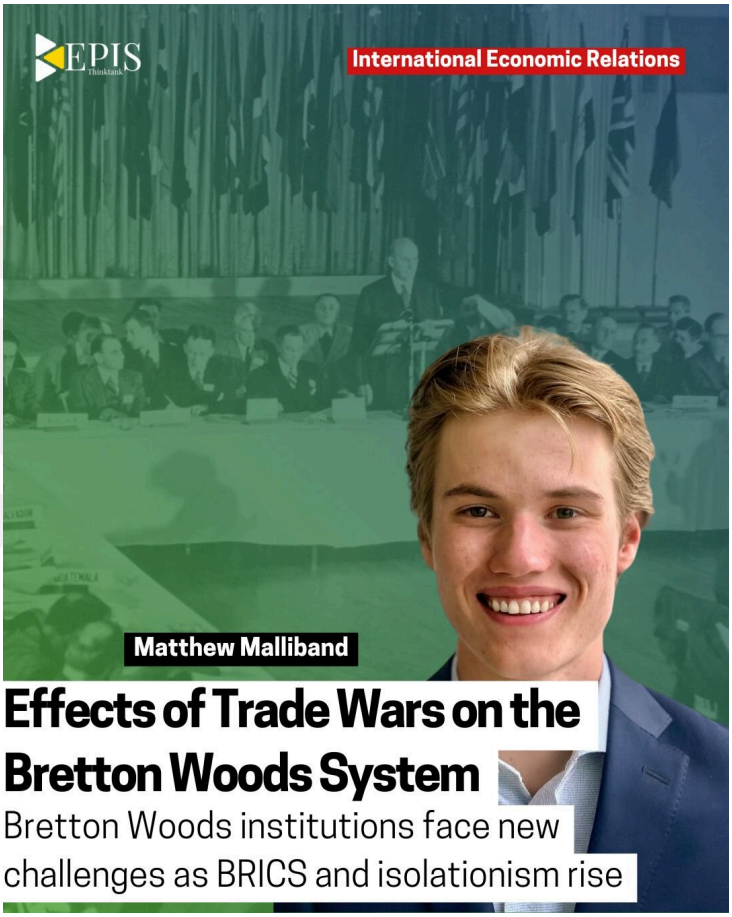
Effects of Trade Wars on the Bretton Woods System

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Question: With the recent rise of economic protectionism among western countries, how will this affect funding for developing countries?

Argument: It hurts funding for developing countries and forces them to look for alternatives, such as BRICS.

Conclusion: the Influence gained by these countries poses a future geopolitical risk

In July 1944, among the chaos of World War II, forty-four Allied Nations met in the small town of Bretton Woods, New Hampshire, USA, to discuss the international economic system following the war. With the booming rise of globalization, often seen and accelerated due to World War II, intergovernmental organizations were starting to prove as a necessity to promote peace and stability, including in the economic sense. The three major organizations to come from this meeting were the International Monetary Fund (IMF), whose goal was to ensure stability by providing short term debt financing options to countries, the International Bank for Reconstruction and Development (IBRD – now called the World Bank), whose goal was to provide long term loans to countries rebuilding post-war, and The General Agreement on Tariffs and Trade (GATT – now called the World Trade Organization (WTO)) whose goal is to provide freer trade and tariff reductions by becoming a common ground for negotiations.

81 years on from the conference at the Mount Washington hotel, the organizations of the Bretton Woods system have changed drastically, with their primary focus shifting to the development of emerging economies. While these organizations were created under the idea of international cooperation, they have been a constant symbol of the spread of westernization, something that other global powers have continued to challenge, such as Russia and China. This contributed to the rise of not only BRICS but also to the rise of the New Development Bank (NDB), providing emerging countries with a new option in terms of development financing.

A recent rise in isolationist economic policies among Western countries has caused a decrease in funding for development and aid for emerging markets. One of the more important examples of this is the current administration in the United States cutting USAID almost entirely. This makes alternatives like the NBD more attractive for emerging and developing economies, contradicting the goals of global unity and security that the Bretton Woods meeting seeks to achieve with the establishment of these organizations. Historically, there are very few events that can draw parallels due to how unprecedented this is in modern economics.

The Plaza Accord of 1985 can be attributed as a similar event to the one we are currently facing. A joint agreement between France, West Germany, Japan, UK, and the United States, the goal was to devalue the US dollar to decrease the US trade deficit through international cooperation. A current goal for the Trump administration's use of tariffs is to reduce this trade deficit, so the parallels do exist. The Reagan administration at the time considered using tariffs as well, but ultimately opted for the Plaza Accord instead. Signed September 22 at the Plaza Hotel in New York, the terms of the accord ultimately caused the US dollar to lose value relative to the other four currencies (the Pound, the Yen, the Franc, and the Deutsche Mark), but failed to reduce the deficit in the short term. Ultimately, the deficit decreased in every country except Japan.

The knock-on effect from the Plaza Accord can be linked to the 1997 Financial Crisis, which prompted the IMF to intervene heavily to stabilize economies. The Plaza Accord "Institutionalized the role of the [IMF] as a neutral participant and advisor in the process. These institutions have survived into the present, though their adequacy for addressing problems in the global economy has been – and remains – an ongoing area of concern." (Bergsten and Green, 2016) The IMF's structure and reliance on donor nations, such as the United States, can hinder it's ability to operate effectively when the donor nations lose faith in other economies. The Plaza Accord later led to the infamous mandate of the United States Congress to label countries as "currency manipulators" if they violated IMF commitments (Bergsten and Green, 2016). This caused a negative image to emerge of the IMF, the image of the organization as a tool by western powers to enforce their influence on the world. The protectionist policies of the United States at the time show the political mindset that caused them in the first place, and parallels can be drawn to the political climate in the United States today and the recent economic policies in the western world. The idea of "distrust" of developing and emerging economies is what caused the mandate of exchange rate tracking in the 1980s, and it's the same mindset that caused the cut of USAID funding earlier this year. The IMF and World Bank are only as effective as they're allowed to be, as they have to rely on member countries (primarily western countries) for funding. Therefore, if the IMF and World Bank are unable to provide adequate funding for the receiving countries, then it will force these countries to look for alternatives in development funding sources.

Geopolitically speaking, the effects of the Plaza Accord had a very little effect on global stability. Despite the hits and criticisms that the IMF and World Bank group took, there was no alternatives for development funding. However, in the early 2010s, China announced the Belt and Road Initiative (BRI), and the BRICS group created the New Development Bank (NDB), providing a new form of competition for the organizations of the Bretton Woods Conference. By 2023, the NDB and Asian Infrastructure and Investment Bank (AIIB – a Chinese counter to the World Bank's Asia Development Bank), have a combined total of $71 billion USD in credit outstanding (Boston Consulting Group, 2024). This is compared to $117.5 billion USD for the World Bank Group, and $169 million USD for the IMF, institutions that are 70 years older and funded by larger economies. The NDB and AIIB are growing at a much faster rate and will soon catch up to the World Bank and IMF. The BRI, which in part has fueled the growth of the NDB and AIIB, is one of the most ambitious geopolitical projects of the 21st century. Powering the BRI, Beijing has dumped money into its state owned enterprises (SOE's) so they can outbid other companies, predominantly western ones supported by the World Bank Group, to complete infrastructure projects in developing and emerging economies (ChinaPower, n.d.). This strategy has been incredibly successful, with 151 countries having

joined the BRI, including Western economies such as New Zealand, Italy, Austria, and others. Clearly, the influence that China has been able to attain from the Belt and Road Initiative has been incredible, but it doesn't stop at influence. Many Chinese companies take ownership of certain projects, such as COSCO shipping owning the Greek port of Piraeus (ChinaPower, n.d.). Furthermore, China has used this initiative to promote the Renminbi (RMB) as an international currency – in place of the USD, Euro, or Pound – by offering debt to fund these projects in RMB. The BRI has faced challenges in its financial effectiveness, as a majority of the countries receiving debt are low income and as a result have defaulted on their loans from Chinese institutions. Many countries have also seen the political intentions behind the BRI, and have left as a result, such as Australia. While it's early for any real effectiveness to be measured, China's true intentions are very clear, and it could be a long time until the BRI can be listed as a success or failure.

The rise of BRICS and China's Belt and Road Initiative (BRI) has had noticeable geopolitical implications, particularly in the developing world. Both the BRICS's New Development Bank and the BRI challenge the Western monopoly over global economic governance, reducing the relative influence of the West in these countries. The BRICS group has evolved beyond an economic coalition into a political counterweight to Western institutions. Its expansion in 2024 to include countries such as Saudi Arabia, Iran, and Egypt shows a growing appeal among states annoyed with the West's dominance in global economic governance (Boston Consulting Group, 2024). This expansion strengthens BRICS' legitimacy as a forum representing the "Global South,"becoming an alternative in development finance. As BRICS and the BRI expand their networks, they reshape global norms of diplomacy, where influence is gained through long-term economic co-operation, rather than military alliances. This rise grows the rising global polarization. As the BRI's "debt diplomacy" and strategic infrastructure acquisitions attract scrutiny, Western powers have responded with their own counter-initiatives such as the G7's Partnership for Global Infrastructure and Investment. This growing competition risks fragmenting the global development landscape into a competition, with countries in the developing world caught between Western and BRICS financing systems. In this sense, BRICS and the BRI redefine the geopolitical order by redistributing soft power away from the West toward a more multipolar system.

The reason for the New Development Bank and the Belt and Road Initiative is to challenge Western economic soft power in the developing world. This is contradictory to the founding and continued mission of the Bretton Woods organizations, whose goal is to provide a platform for global economic growth and stability. The current rise in economic isolationism among the global West can cause these alternative organizations to be more attractive. This creates a rivalry on the global stage which can lead to further geopolitical tension, ultimately adding to the East vs West global divide.

Ultimately, due to the lack of precedent in this sector, the future effects cannot be accurately projected. The possibility of increasing the global divide should be something that policy makers are aware of, but it can take years until it's fully realized due to the long term nature of infrastructure development projects.

Sources

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