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Towards a New Global Financial Architecture for the Global South

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Abstract:

The main argument is that a historical nodal point has arisen with the advent of the tragic war in Ukraine and the US hostilities towards China. THE sanctions regimes of the US-led Global North have compounded the instabilities in the existing system. As the world system moves towards multipolarity, an opportunity exists for the Global South to construct through partial delinking from the post WW2 financial architecture under US hegemony. Construction of an expanded BRICS-led supra regional financial architecture along with regional financial architectures will be a good step forward. Within two decades dedollarization will become a reality. Finally, a new non-aligned movement and construction of genuinely pro-people development programs can also become a reality.

Keywords: Ukraine, multi[polarity, BRICS, expanded BRICS, China, The Global South

1.Introduction

The world has been through repeated financial and economic crises as neoliberal policies for liberalization that served mainly the perceived interests of the Global North---the US in particular--- unraveled. Among the thinkers of the Global South as well as responsible economists from the Global North, if not the earlier Mexican crisis, then certainly the Asian Financial Crisis and the contagion it created unleashed a process of questioning the wisdom of the standard recipe of the Washington consensus. The process of questioning intensified after the 2008 global crisis. This process is still continuing; but the real costs of crises have forced on the policy agenda the question of what kinds of national and international policies and institutions are appropriate during the current period and in the foreseeable future. For the policy makers from the Global South finding an approximately right institutional structure for a new global financial architecture has become even more urgent. Recently, several prime ministers from Africa have directly called for creating a new global financial architecture . What advice can economists from the Global South give to their policy makers at this juncture?

2. Uneven Development and the Role of Historical Contingencies¹

The role of structural unevenness in the global economy is particularly important to recognize within the proposed framework of analysis. The range of economies, the types of polities, the institutional capacities and resource endowments including technological progress and capacities for innovation all vary widely. A simple system of gold standard or adjustable peg or free and flexible exchange rate together with free multilateral trade under, say, the WTO arrangement may therefore be simplistic. It may serve the needs of one group of actors, for example, the advanced economies with well-developed financial services sectors, than some others. How best to achieve a synchronized growth and development regime that is perceived to be fair by all is indeed a challenging problem.

It is worthwhile to point out that a unique set of historical circumstances led to the Bretton Woods system that initially was a second best to Keynes's more comprehensive plan for postwar international financial settlements. The White plan from Washington made US dollar the main currency for global financial settlements under US hegemony implemented through the IMF. As the US balance of payments started to show ever larger deficits, partly because of wars but also because of increased US consumption of imported goods, the US suspended the gold window in the early 1970s. Here a second set of unique historical circumstances favoring US financial supremacy came into play.

After the energy---in particular oil--- crisis that followed the war in the middle east in 1973, the US deficit increased even more. The question arose as to how to recycle these "petro-dollars". Ultimately, Saudi Arabia and other OPEC nations agreed to buy US

¹ See the literature cited in the references section at the end of the papers to place the issue of unevenness and institutional change in evolutionary theoretical and historical context. Specific issues ranging from macro instabilities to micro corporate governance, sanctions and critiques of the current system are also cited there.

Treasury bills. Essentially this meant financing the US deficits by recycling the surplus abroad by lending money to US treasury. Thus the exorbitant privilege of the US dollar that De Gaulle had complained about earlier became even more so. The US could merrily get real goods and services by non-gold backed US dollars. This system plus ancillary financial messaging system such as the SWIFT, has meant that unlike other debtor countries, the US can freely spend more than its domestic national income without the kind of painful adjustments resulting in austerity and low growth performance for almost all of the countries in the Global South. But now that period of exorbitant privilege enjoyed by the US may be coming to an end.

3. New Historical Conjuncture: An evolutionary institutional theory perspective

The overarching reason for this is the end of unipolarity. Even when the USSR existed we had two bounded regional systems in the world led by the two great powers, the US and the USSR. They were bounded politically through being hegemonic in their own geographically bounded areas although proxy wars and other contestations over the Global South would continue until the fall of the USSR. Most importantly, since trade and investments were also bounded, especially in the Soviet bloc, the US could exercise hegemony over the Global South by relationships of asymmetric dependencies dominated by the US and the institutions it had set up after WW2.

After the fall of USSR, the US enjoyed a unipolar complete hegemony throughout the 1990s up until the early years of the 21st century. This fact alone can explain why the Global South including Russia and even China accepted neoliberal doctrine and practices. But in China, there was always opposition within the governing circles. I have found this to be the case during my many visits and conversations with the influential policy makers in China from 1991 till now. In particular, when I was at UNCTAD during the global financial crisis, I witnessed some open and angry debates between Chinese neoliberals and their opponents. Now since 2018 at least, the US ruling class seemingly is bent on confrontation with China. Together with the tragic proxy war in Ukraine and indiscriminate use of economic sanctions against Russia, China and other countries by the US and its junior partners including EU and Japan this aggressive stance against China has pushed China and Russia closer. Now these two countries are more willing than before to set up alternative payments mechanisms, and a new modified type of global financial architecture. Will this succeed and how fast can dedollarization and the US hegemonic decline proceed?

In my earlier works including the chapter in my 2004 book on *Global Markets and Financial Crises*, using a theory of evolution of institutions in a complex system, I outlined a plan for formation of a regional financial architecture in Asia and other regions, and reform of the IMF by making its treatment of surplus and deficit countries symmetric. Given the lack of political will at the IMF and US treasury---despite some pious or perhaps even sincere rhetoric at times---it does not seem that the US or the IMF will take the path of reform. Rather, the recent lenient treatment of the countries that are effectively US vassals and the punishing moves against the Global South countries that dare to declare some semblance of independent policy making, it is clear that my earlier

optimism based on institutional economic theory and history as well as evolutionary economics, was misplaced.

Therefore, even in a multipolar system, older institutions like the IMF and World Bank and their European counterparts will largely bow to the US command. Since the Global South can not withdraw from the T-bills based US dollar hegemony at once, if the current manifestation of political will in the BRICS and the Global South strengthen, a gradual delinking over the next two decades will be politically and economically feasible. What is achievable more quickly will be the strengthening of bilateral and regional swap arrangements and formation of both general regional payments mechanisms with “currency-equivalents” like Asian Drawing Rights (ADR)---and even a Global South monetary unit such as an Asian Currency Unit(ACU) in the future---- along with specialized Global South financial institutions like AIIB and Latin American and African regional banks run by experts from the Global South who have both technical expertise and a vision for alternative pro-people development in the Global South.

From the policy perspective, it is important to know if the existence of a Global South based regional financial architecture would be helpful in any way during the future crises. This is really a counterfactual question but vitally important for preserving and enhancing the well-being of people.

In contrast with the behavior of the IMF, within the proposed regional financial architecture, at least the following aspects will be possible on the basis of applying an evolutionary theory of financial instabilities under globalization in a multi-polar system:

1. Through constant regional monitoring the Global South will sense the danger ahead of time. Even a regional monitoring unit alone would have been able to do better than the IMF team in Asia before and during the Asian Financial Crisis.

2. Through constant formal and informal contact with the officials in member governments and the private sector, the proposed regional financial architecture will be able to size up the possible extent of the problem earlier and better than the IMF record so far.

3. Through prompt and early action the proposed regional financial architecture will provide liquidity to the system, and punish bad management in coordinated measures with the national governments.

4. The proposed regional financial architecture will be able to start regional discussions about bankruptcy and work out procedures by keeping in close touch with the history and legal issues facing particular countries.

5. The proposed regional financial architecture will be in a position to use both moral suasion and toughness to keep both regional creditors and debtors in line.

4. Conclusions:

The fundamental requirement for financial stability and independence of the Global South at this juncture, therefore, would seem to be the creation of an expanded BRICS

including many energy producers that can lead to both supra regional financial architecture for the Global South along with specific RFAs in Asia, Africa and Latin America with enough liquidity and technical expertise. The Asian Development Bank provided quite a bit of liquidity to Korea in particular during the Asian Financial Crisis, but did not even have a monitoring unit when the crisis broke out. Furthermore, the autonomy and integrity of any Global South future RFA, in Asia and elsewhere are issues that need discussion. The relationship between the new RFAs and the IMF also needs to be further specified. These are matters that are of necessity evolutionary by nature.

As I have discussed in my recent papers, in a multi-polar world, there will also be an opportunity to launch a new non-aligned movement from the Global South. What is needed is a combination of bold vision and practical realism supported by the relevant expertise for the benefit of the great majority of the people on our planet.

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