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Interlocking, Currency Swaps and  
Goeconomics**

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# **The New Resilience of Emerging and Developing Countries: Systemic Interlocking, Currency Swaps and Geoeconomics**

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## **abstract**

The vulnerability/resilience nexus that defined the interaction between developing and advanced economies in the post-WWII era is undergoing a fundamental transformation. The aim of the paper is to analyse the nature of this transformation and its impact on the role and place of Emerging and Developing Countries (EDCs) in the global economy. The current debate is dominated by two approaches: on the one hand econometric studies that examine the decoupling hypothesis, and on the other structural explanations that are focusing on the dominant role of the US. The paper attempts to advance this debate by focusing on the EDCs agency and in particular their resilience-enhancing policies. We conclude that the EDCs 'new resilience' and the conditions of 'systemic interlocking' that currently define the relations between emerging powers and advanced economies, increase the EDCs leverage and policy space in the global economy. Furthermore, although a new series of EDCs crises cannot be ruled out (for instance as a result of monetary tightening in the US), their potential global economic and geoeconomic consequences make them too dangerous an outcome for advanced economies.

# **The New Resilience of Emerging and Developing Countries: Systemic Interlocking, Currency Swaps and Geoeconomics**

## **Introduction**

The emerging and developing countries (EDCs)<sup>1</sup> demonstrated unexpected resilience in the face of global economic crisis, especially in comparison to past global recessions<sup>2</sup>. There have not been generalized currency-collapses, bank insolvencies, and social unrest. On the contrary, it was the first time in modern history that EDCs, especially emerging powers, not only demonstrated strong capacity to use stabilizing economic/fiscal stimuli<sup>3</sup>, but also bailed out the advanced economies<sup>4</sup>. Thus massive amounts of money moved, mostly through sovereign wealth funds, from EDCs to advanced economies, offering critical support for the recapitalization of leading western banks and corporations, such as the UBS, Citigroup, Deutsche Bank, Barclays, Merrill Lynch, Morgan Stanley, HSBC, Credit Suisse, VISA Inc., Bear Stearns, Blackstone Group, Carlyle Group, Standard Chartered Bank, London Stock Exchange, Nasdaq, and Daimler<sup>5</sup>.

The aim of this paper is to analyse the sources and the dynamics that govern this ‘new resilience’ of emerging and developing countries. Resilience is a relative not an absolute quality. The resilience demonstrated by the emerging and developing countries, does not mean that these countries do not remain vulnerable to economic trends and changes taking place in the advanced economies. It indicates, however, that the degree of this vulnerability and the way it functions may have changed. In this context, the paper examines the factors that underlie this new resilience of the developing world, the ‘degrees of freedom’ that this new resilience may create for the emerging powers of the global South, and the broader geoeconomic implications of these developments.

In the paper, resilience is conceptualised as the ability of the EDCs to deal with external economic shocks (e.g. the 2008/09 global economic crisis, or monetary tightening in the US), and persistent adverse international economic conditions (e.g. a prolonged

period of low growth or high interest rates in advanced economies)<sup>6</sup>. The EDCs' resilience may increase or decrease as a result of domestic economic conditions and policies, the frequency, duration and intensity of the adverse external developments, as well as broader changes in the global distribution of power and wealth. Resilience is not and cannot be captured and analysed just as a set of economic indicators (e.g. GDP growth, debt exposure). The ability of the EDCs to endure external volatility, crises and shocks, is also determined by the wider structure of the global political economy, and the way in which (different) EDCs are integrated in it. It is this mode of integration that determines the nature and degree of exposure and the vulnerabilities experienced by the EDCs in the global economy, as well as the parameters, effectiveness and limits of their resilience-related policies and strategies. This analysis has traditionally focused on factors such as the EDCs degree of economic openness, export concentration, and dependence on strategic imports<sup>7</sup>, as well as their inability to borrow abroad in their own currency, manage external debt levels that are considered sustainable in advanced economies, and deal with currency mismatch problems in their balance sheets<sup>8</sup>. To capture this embedded approach to resilience, the paper advances the concept of 'vulnerability/resilience nexus'. The concept of nexus aims to signify the dynamic nature of the interaction between vulnerability structures and resilience strategies, and the multiple points of 'equilibrium' and possibilities for transformation generated by this interaction. In this context, our aim in this paper is not only to account for the factors that underlie the resilience demonstrated by the EDCs, but also to examine whether and how current EDCs policies have the ability to challenge the very vulnerability structure within which this resilience operates. Such challenges would rather signify a transformation of the 'resilience capacity' of EDCs, rather than just an increase in their 'ability to endure' external crises.

There have recently been a number of important challenges in the traditional literature on EDCs. Despite modest growth in advanced economies, the EDCs demonstrated impressive growth rates over the last decade. This threw the traditional EDCs vulnerability/resilience nexus into sharp relief, and questioned the 'conventional wisdom that when the US economy sneezes the rest of the world catches a cold'<sup>9</sup>. As a result there has been a new wave of econometric studies examining the decoupling hypothesis, i.e. whether the divergence in the business cycles of the advanced and emerging economies, and the increased trade and financial integration among the

emerging economies, have made the EDCs less dependent on and vulnerable to advanced economies. The findings of these studies have been inconclusive, with some authors finding evidence in favour of the decoupling thesis<sup>10</sup>, others pointing to exactly the opposite direction of recoupling and increased interdependence<sup>11</sup>, and some referring to decoupling in terms of business cycles but recoupling in terms of financial markets<sup>12</sup>. Yet, this de/recoupling literature offers us a rather structural perspective on the EDCs' place in the global economy. Put differently, it tell us very few things on what is actually happening on the ground, in terms of new power configurations and institutional arrangements, and how these developments may impact on and transform the EDCs vulnerability/resilience. Therefore, despite its contribution in terms of new insights on the relationship between EDCs and advanced economies, this new wave of studies suffers from the 'structural bias' found also in traditional studies that have focused on the dominant role of the US and the US dollar in the global economy.

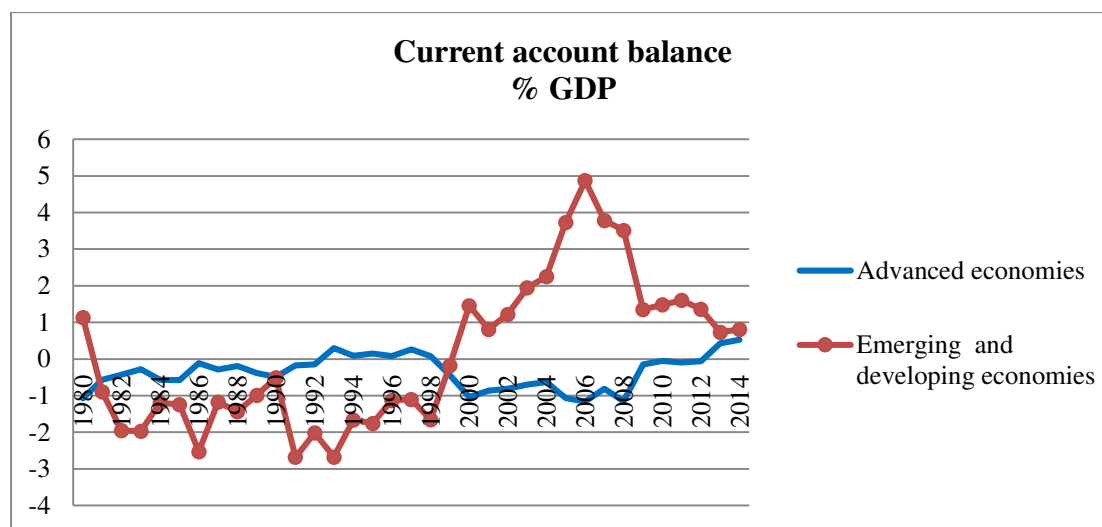
Another wave of literature has attempted to avoid this 'structural bias' by developing an agent-centric perspective<sup>13</sup>. Eric Helleiner for instance offers a compelling account of the global economic crisis as a status quo enhancing event, through which the US and US dollar maintained, if not strengthened, their dominant role in the global economy. His analysis demonstrates the failure of emerging powers to challenge the existing structures of global governance. Yet, a systematic account of initiatives and changes related to the EDCs resilience capacity and how these may matter remains beyond the scope of his analysis<sup>14</sup>. On this, Kevin Gallagher's research on EDCs capital controls related policies is illuminating. Gallagher demonstrates how the combination of the EDCs new resilience with new economic thinking and institutional dynamics can challenge on the ground key aspects of the EDCs traditional vulnerability/resilience nexus<sup>15</sup>. Similarly, Mikko Huotari and Thilo Hanemann assess the increased capacity of the BRIC countries to challenge the parameters of the global economic system<sup>16</sup>, and Leslie Armijo and Saori Katada demonstrate how the recent changes in the capabilities of emerging powers have increased the economic and financial instruments that these countries have available to achieve their foreign policy goals<sup>17</sup>. From a different perspective but with similar aims Gregory Chin has assessed the limits of EDCs regional financing initiatives<sup>18</sup>, and Adriana Abdenur and Maiara Folly have examined the degree of institutionalization of the BRICS, through an assessment of their New Development Bank<sup>19</sup>.

This paper attempts to advance the above literature by offering one of the first systematic assessments on how dispersed resilience-related sources and arrangements are coming together to challenge (or not) the EDCs traditional vulnerability/resilience nexus. Literature on this issue remains limited. It is not only that we do not have many studies, for instance on new regional financing arrangements, bilateral currency swaps agreements, and the use of local currencies in trade and finance. It is also, and maybe more important, that there are no many systematic efforts that attempt to conceptualize how these different activities are interrelated, and to what effect. We do not know enough about a wide range of new disperse mechanisms and practices that increase the resilience of EDCs, we know even less about how these disperse mechanisms and practices come together and interact in ways that (may) redefine the way the traditional vulnerability/resilience nexus operates. Filling this gap requires moving beyond structural explanations, formal economic vulnerability indicators, and changes in the Bretton Woods institutions. It requires focusing on the interacting agency of emerging powers themselves, i.e. what is going on ‘on the ground’ rather than just the manifested impact of this agency on formal multilateral structures of governance (e.g. attempted changes in voting power in IMF). In this context, our aim in this paper is to examine what ‘resilience capacity’ is generated by an emergent network of dispersed but interlocking arrangements and practices produced by the EDCs themselves.

### **The intellectual puzzle of EDCs new resilience**

The global economic crisis that followed the 2007 subprime crisis in the US led to a rapid global rebalancing between the advanced and emerging/developing economies. In 2006 the emerging and developing countries ran a large current account surplus of 4.9% of their GDP. The same year advanced economies ran a current account deficit of 1.2% of their GDP. By 2009 the surplus of EDCs had been reduced to 1.4%, while the deficit of advanced economies had been reduced to 0.14%. The stiff curve of this rebalancing, apparent in Table 1, relates both to a change in the exchange rates and to a fall in consumption in the advanced economies. That is, it had to do both with less imports and more exports on the side of the deficit advanced economies.

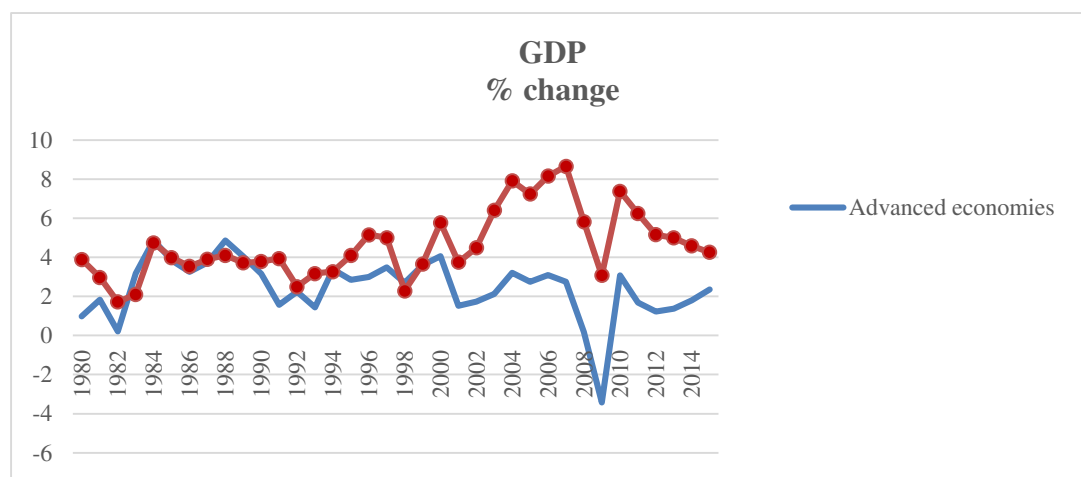
TABLE 1



Source: IMF, 2014

Considering the abrupt nature and the magnitude of this significant ‘global readjustment’, one would expect growth in the EDCs to collapse. Yet, although the EDCs growth rates were negatively affected, they did not follow the collapse we saw in the advanced economies. On the contrary, the growth rate difference between the two groups of countries, observed after 2000, was maintained (see Table 2). In this way, rather than collapsing after the outbreak of the crisis, emerging and developing countries acted as the main drivers of global growth, accounting for two thirds of this growth from 2010 onwards<sup>20</sup>. In the period 2007-2013, the advanced economies registered on average an annual growth rate of 1.0% (the figure for G7 was even lower at 0.8%) whereas the respective figure for the emerging and developing economies was 5.9%<sup>21</sup>.

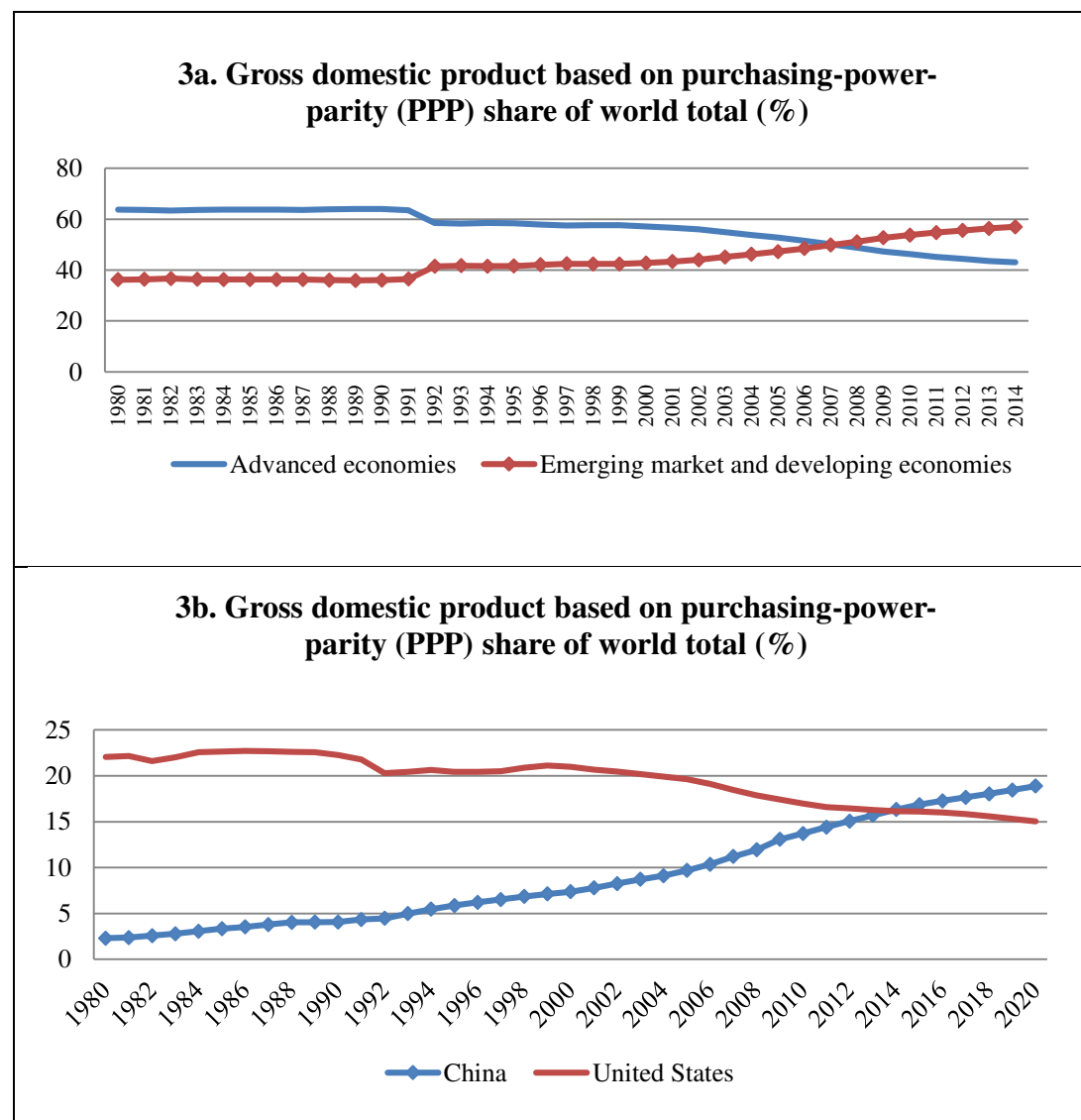
TABLE 2



Source: IMF, 2015

The broader historical-economic context of the aforementioned global current account readjustment and growth trends is even more striking (Table 3a). Measured in purchasing power parity (PPP), in 1990, advanced and developing economies contributed to global GDP 64% and 36% respectively. In 2000, this gap had been reduced to 57% vs. 43%. The year 2008 was the first year that the EDCs' contribution to global GDP exceeded that of the developed economies (51% for the developing countries). By 2013, this gap in favour of the EDCs, had been widened to 56% vs. 44%<sup>22</sup>. Furthermore, according to IMF estimates, 2014 will be the first year that in PPP terms China will overtake the US as the largest economy of the world, a trend that is projected to continue thereafter (Table 3b)<sup>23</sup>.

TABLE 3

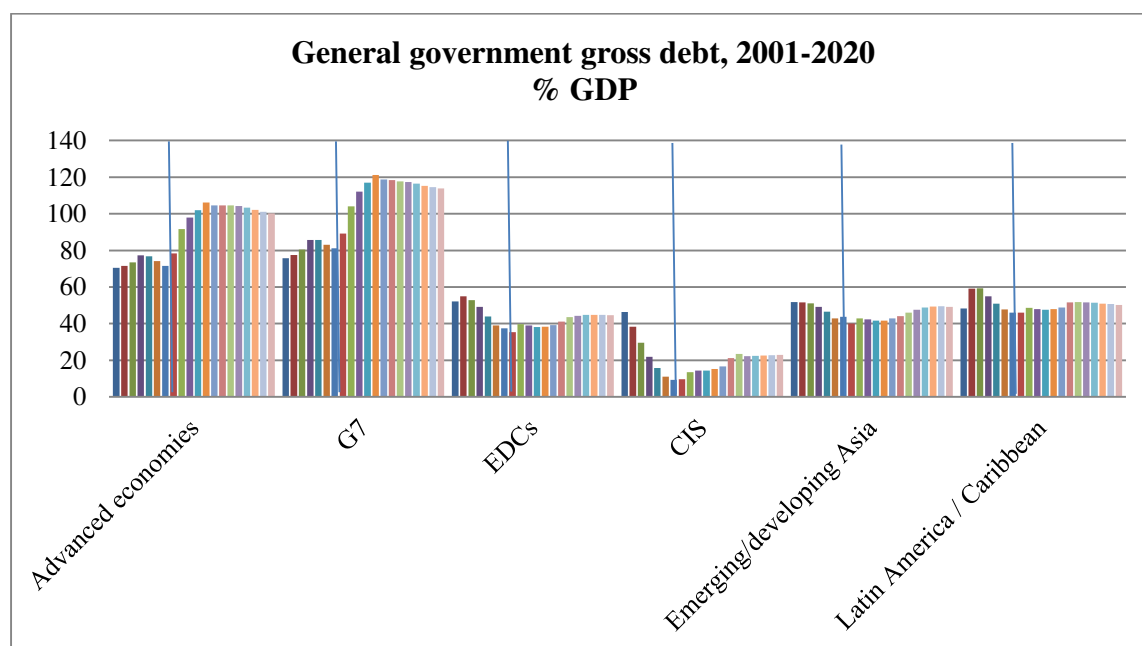


Source: IMF, 2015



Despite the fact that economic size does not tell us anything about absolute or relative levels of poverty, the above evidence points clearly to a long-term historical transformation: a rebalancing of the global economy on the basis of the growing weight of emerging and developing countries. Taking into consideration that China and India were the largest economies in the world for most of the pre mid- 19<sup>th</sup> century period, such a rebalancing seems a return to ‘normality’ rather than a historical aberration<sup>24</sup>. This does not mean that this trend cannot be reversed. It means, however, that a peaceful reversal, if it were to take place, it would take time and effort from the side of advanced economies. It would also have to take place in a difficult debt context for advanced economies<sup>25</sup>, as their average public debt is projected to remain above 100% of their GDP until 2020 (Table 4) (the respective figure for G7 is even higher at 114%).

TABLE 4



Source: IMF, 2015. Note: vertical lines indicate year 2008

The context of indebtedness in which most G7 economies find themselves becomes more striking if in addition to public debt we account for the debt of non-financial corporations and households. In mid-2014 the G7 ‘real economy debt’ (i.e. government, corporations, households) was on average 261% of their GDP (only Germany was below 220%, while Japan was at 400%)<sup>26</sup>, demonstrating that the majority of these economies remain highly leveraged, almost eight years after the break out of the global economic crisis<sup>27</sup>.

This increased indebtedness is indicative of the limited policy space available to the advanced economies in the post 2008 crisis period. But more importantly, the aforementioned historical rebalancing of the global economy in favour of the EDCs points to a transformation of the very context that defined the EDCs post-WWII conditions of vulnerability and resilience. In particular, the EDCs' increased contribution to global GDP, signifies the transformation of emerging powers into 'systemically important' global actors. This is clearly the case for China but to a lesser degree applies to all BRIC countries. The concept of 'systemically important' denotes that any significant changes in these economies has an impact on the global economy as a whole. In this sense, the stability/instability of these countries influences the stability/instability of global economy, to a degree higher than any other time in the post WWII period. Thus, a major crisis in China is bound to have a major impact on the global economy, in the same way (but not necessarily to the same degree and through the same channels) that a crisis in the US economy impacts on the rest of the world<sup>28</sup>. Therefore, in the current fragile global economic recovery period, and in a context where the EDCs contribute more than half to global GDP in PPP prices (one third in current prices), the economic sustainability of advanced and emerging economies are causally related (even if there are lags in the transmission of shocks among them). This fundamentally transforms the role and impact of the EDCs in the global economy. The current slowdown of growth rates in EDCs should be read in this light. The emerging economies could not continue to grow fast, while growth remained subdued in advanced economies. But, the opposite is also true now, i.e. any recovery in the advanced economies will not be sustainable in a global environment characterized by the collapse of EDCs. These conditions of 'systemic interlocking' increase the EDCs leverage in the global economy, but most importantly changes the very structure in which the EDCs vulnerability/resilience nexus traditionally operated. Thus, whereas in the past a crisis in EDCs was a peripheral event mostly constrained within EDCs, in the current context a crisis in EDCs is bound to have global repercussions, affecting if not derailing the fragile recovery of advanced economies. This does not only help us to understand the new global economic chessboard that defines the interplay between the advanced economies and EDCs, but also problematizes a traditional zero-sum approach to economic growth between the EDCs and advanced economies. Yet, as mentioned above, to assess the transformation of the EDCs new resilience we need to combine this

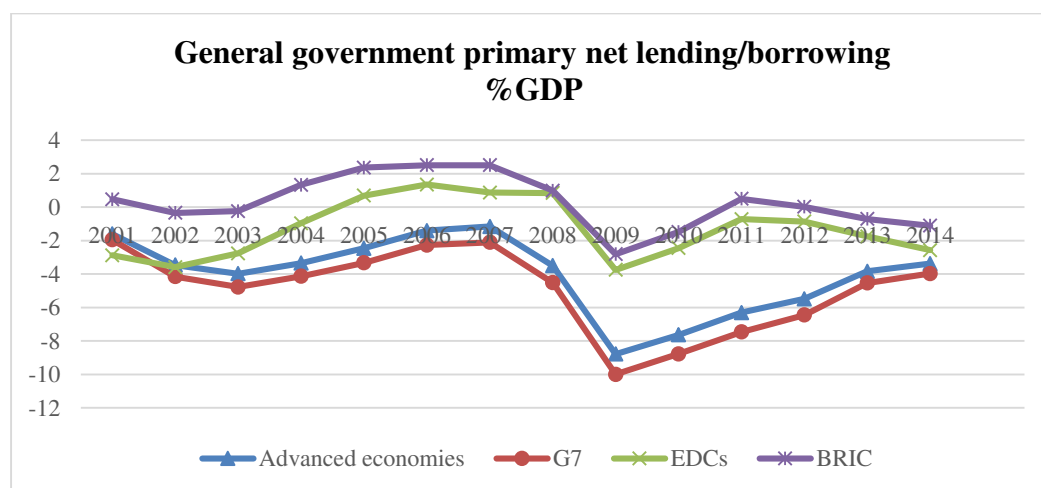
‘new context’ with concrete resilience policies and strategies. This is the aim of the next section.

### The 1997/98 Asian Crisis as a geoeconomic moment

The turning point for the emergence of EDCs new resilience was the 1997/98 Asian economic crisis and the subsequent global domino of financial crises<sup>29</sup>. The experience of going through an IMF-led socially devastating structural adjustment process (and a humiliating global media blitz on the ‘corrupted’ foundations of their socio-economic systems’) had a formative impact on publics and elites in the global South. It indeed led to a rupture in the mode of integration of large emerging and developing economies in the global economy, by forcing them to adopt a ‘self-insure’ strategy against the speculative nature of global finance<sup>30</sup>. Two critical and interrelated elements stand out here.

First, the strategy of primary budget surpluses and foreign reserves accumulation. The examples of Russia and Brazil are indicative. Russia ran on average a primary budget surplus of 5.6% for the period 1999-2006, and 2% for the period 2007-2014 (i.e. before and after the global economic crisis); while the primary budget surplus average for the period 1999-2014 was 3% of GDP. Similarly, Brazil run a primary budget surplus each and every year during the period 2001-2013, which on average was 2.9% of its GDP<sup>31</sup>. The difference in this regard between EDCs and advanced economies is clearly reflected in Table 5.

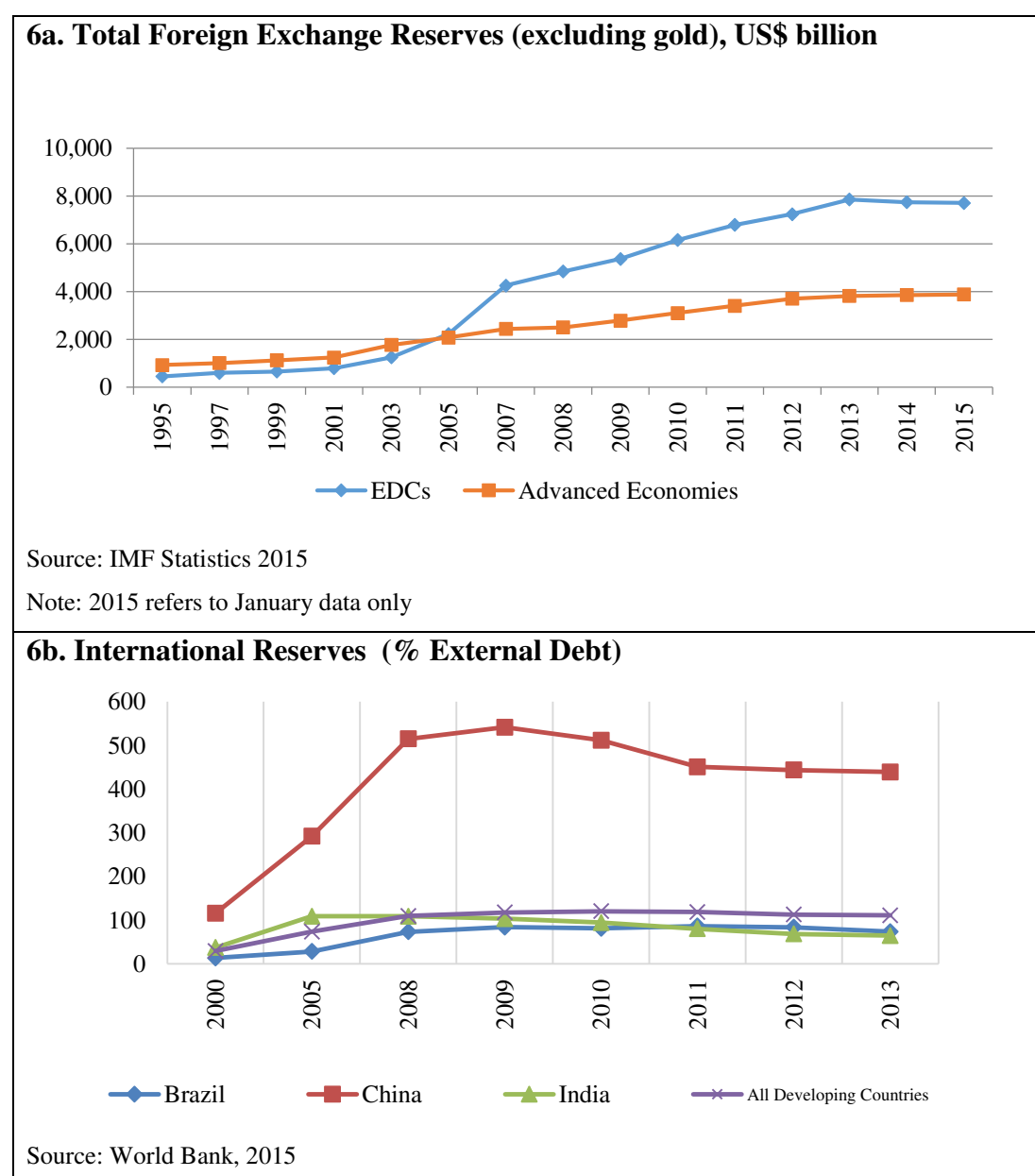
TABLE 5



Source: IMF statistics 2015

Respectively, the EDCs international reserves skyrocketed after the late 1990s. The 2005 was the first year that the EDCs international reserves exceeded that of advanced economies, and the gap between the international reserves of these two groups of countries kept increasing up to 2013<sup>32</sup>. It is indicative that on average, for all developing countries, international reserves increased as a percentage of external debt from 30% in 2000 to 110% in 2008, and despite the economic crisis they kept increasing up to 2010 when they peaked at 120.5%. Since then they have registered minor annual reductions remaining however above 111% in 2013<sup>33</sup> (Table 6).

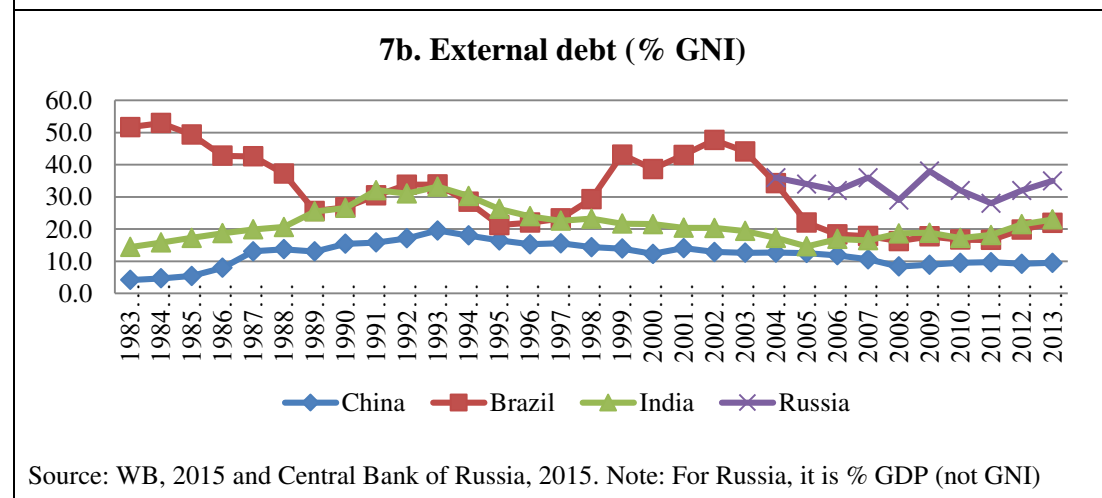
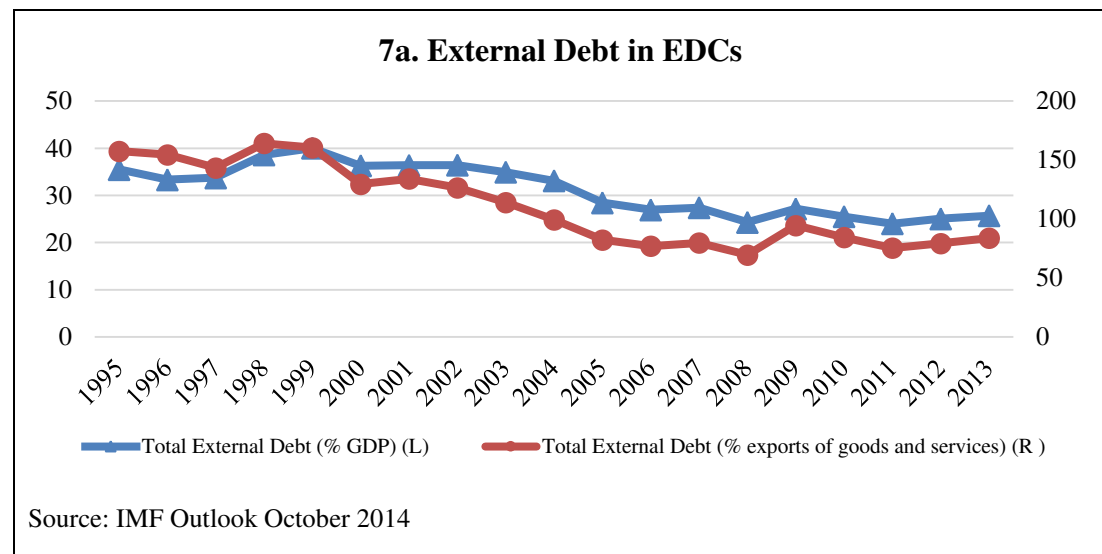
TABLE 6



Of course the strategies of primary surpluses and reserves accumulation have a very high economic and social cost<sup>34</sup>. Yet, the buffers created by the EDCs acted as resilience multiplier at different levels. For instance, ruling out currency attacks, attracting capital flows, improving economic ratings, and in general boosting the global markets confidence in EDCs economies.

Second, the strategy of reducing external exposure, by achieving a significant reduction in external debt<sup>35</sup>. In particular, the EDCs' total external debt as a percentage of GDP was reduced on average from its Asian crisis peak of 40% in 1999 to 26% in 2013<sup>36</sup>. Similarly, total external debt as a percentage of exports –an indicator that better captures the vulnerability of the external position of a country—was more than halved, from a peak of 164% in 1998 to a low of 70% in 2008, raising again to 84% in 2013<sup>37</sup> (Table 7).

TABLE 7



Taking into consideration the collapse in global trade that followed the global financial crisis, especially in 2009, the resilience demonstrated by the EDCs is indeed remarkable. Remarkable is also the contrast between the EDCs and high-income countries whose external debt as a percentage of GDP rose to 142% in 2013<sup>38</sup>.

Furthermore, from the 1999 onwards, we see a rupture in the direction of global financial flows. After registering a record surplus of US \$140.5 billion in 1998, the advanced economies started to register deficits, and the EDCs surpluses in their financial accounts. The EDCs continued to register surpluses throughout the period 2000-2013, leading to a cumulative surplus amount of \$3.4 trillion, over the period 2000-2013. The same period, the cumulative deficit in the advanced economies was \$3.3 trillion<sup>39</sup> (see Table 8a). To get a better sense of what these changes in financial flows mean, and how they may affect the EDCs' resilience in the post-crisis environment, let us break down these aggregate amounts into direct investments, portfolio investments, and 'other investments'.

The picture that emerges from this break down is instructive<sup>40</sup>. First, in terms of short term capital flows there is a US\$ 252.6 billion of portfolio type investments and 389 billion of 'other investments' (which relate to bank deposits and loans) to the EDCs during the period 2000-2006 (Table 8b & 8c). Therefore, during this period, EDCs emerge as a critical 'asset class' in advanced economies investment portfolios. At the same time, this trend, boosted EDCs growth rates helping them to boost their resilience in the ways we discussed above (reduced debt, increased foreign reserves). The 2007 subprime crisis in the US and the collapse of the Lehman Brothers in 2008 produced global market panics that triggered abrupt capital outflows from the EDCs back to the core i.e. advanced economies. Yet, when investors realised that the uncertainty and problems were much larger in the core / advanced economies than in the periphery / EDCs, abrupt reversals of flows in favour of EDCs took place. Thus, in terms of short term capital, an US\$ 181.3 billion of net inflows in EDCs in 2006, was followed by a net outflow of 198.6 billion in 2007, followed by 366.2 billion of net inflows in 2008, followed by net outflows in 2009 and 2010, and inflows in 2011 and 2012, and significant outflows in 2015 (see Table 8d). We analyse this destabilising capital flow pattern and its implications below, but clearly, despite panics and abrupt reversals,

global capital markets look at EDCs as a credible investment alternative to the fragile financial conditions in advanced economies<sup>41</sup>. It is also worth pointing out that the fact that many EDCs had shifted from policies of fixed exchange rates to flexible exchange rates, before the outbreak of the crisis, increased their ability to weather through the initial shock of these abrupt capital flow reversals<sup>42</sup>.

Second, the capital flows with regard to long-term direct investments (FDI) follow the opposite direction to that of short term flows. The dominant picture here is that of outwards flows from the EDCs. Throughout the 2000s, the EDCs engaged in acquisition of assets abroad (including in the advanced economies), a trend that is peaking up as we get closer to the subprime crisis in the US<sup>43</sup>. This trend is intensified during the first years of the crisis, with peaks in 2008 and 2011. During the period 2000-2008 EDCs outwards FDI flows reached US\$ 2.3 trillion, followed by 2.2 trillion during 2009-2013 (Table 8e). Yet, at the same time an interesting reverse trend had been taking place.

In the same way that parent financial and non-financial corporations in the advanced economies withdraw sources and operations from the EDCs to support their core operations in their home countries, parent financial and non-financial corporations in the EDCs started to do the same by withdrawing resources and operations abroad to support their operations at home. As Jara et al<sup>44</sup> note for Latin America, one difference in the current economic crisis 'is that in this decade the region has accumulated large gross (non-reserve) assets invested abroad (\$180 billion by end-2007); such assets were almost non-existent in previous crises. The partial repatriation of those assets during 2008 helped stabilise the external financial position of the region during the current crisis. In 2008, gross outflows decreased by almost \$42 billion and net flows amounted to \$53 billion'. Furthermore, recent evidence suggests that the EDCs' sovereign wealth funds (SWFs) are now more willing to diversify their exposure in advanced economies, by moving some funds back home. Such reverse flows by SWFs can also help EDCs to ease the impact of temporary capital outflows<sup>45</sup>. Thus, the acquisition of foreign assets through direct (and in many cases portfolio) investments has added one more 'resilience layer' for the EDCs, helping them to temper adverse capital flows and policies initiated in advanced economies.

Table 8a

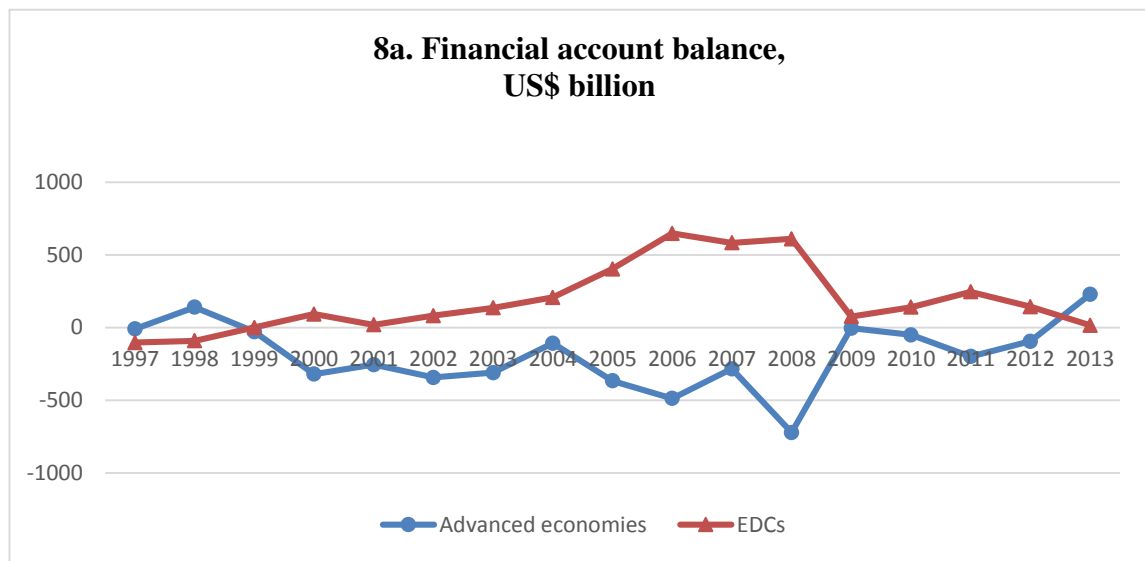


Table 8b

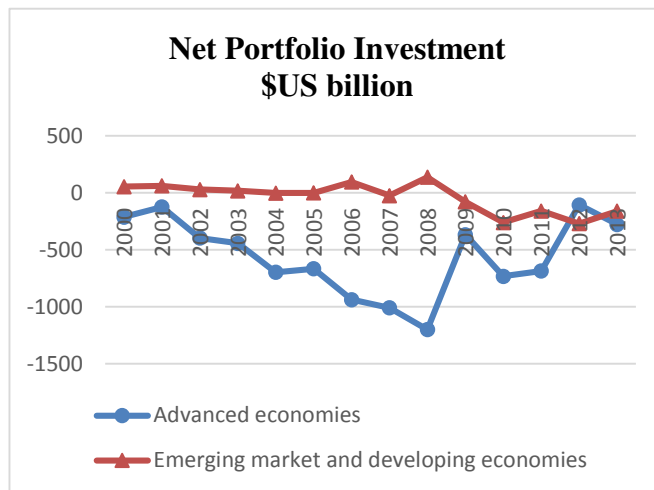


Table 8c

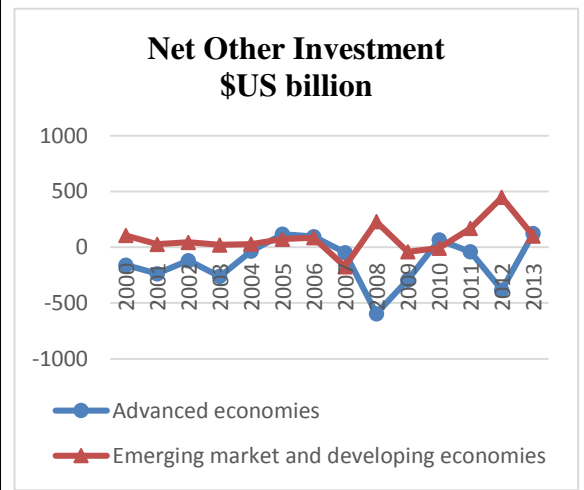


Table 8d

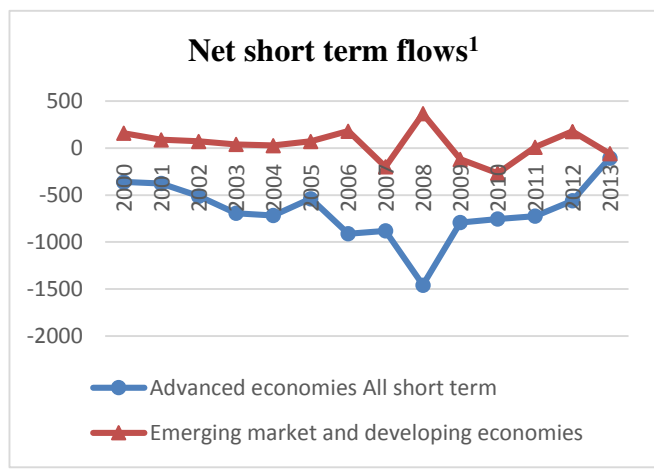
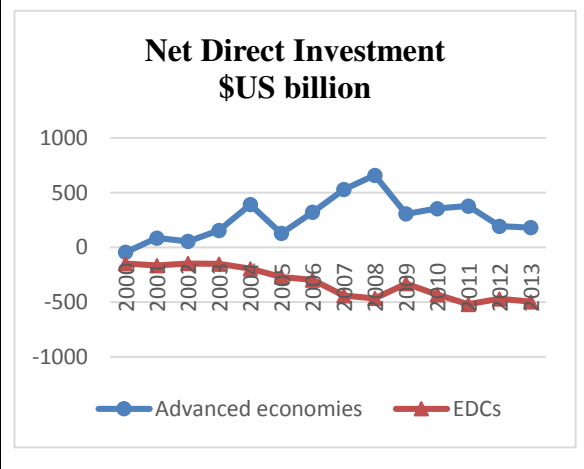


Table 8e



<sup>1</sup>It includes net portfolio investment, net other investment and net financial derivatives

Source: IMF Statistics 2015



The increased weight of EDCs in global private investment portfolios, as well as the change of ‘global markets’ attitude towards EDCs, during the 2000s, are also manifested in the willingness of ‘global markets’ (i.e. private investors/creditors) to buy long-term debt in developing countries. On the year 2000, investors placed US\$ 20.7 billion in long term debt in developing countries (public, publicly guaranteed, and private). This amount had increased to US\$ 80.4 billion in 2005, US\$ 207.7 billion in 2008, and US\$ 336.5 billion in 2013<sup>46</sup>. Although the absolute numbers do not say anything on their own, the substantial increase over time does. The respective picture for Brazil, China and India is not uniform but follows a similar pattern. In 2000 only Brazil experienced net private investments in its long term debt (US\$ 11.1 billion), whereas China and India experienced net outflows (US\$ 4 and 5 billion respectively). Yet, after the outbreak of the global crisis in 2008 private investors significantly increased their long term debt purchases in these countries. In the period 2010-2013, net private long term debt inflows reached historical heights. The annual average for these three years was US\$ 52.8 billion in Brazil, 110 billion in China and 16.5 billion in India (author’s calculations using World Bank 2015). A strong indication of the way in which global markets used large EDCs as a safe alternative even after the 2009 peak of the economic crisis in advanced economies.

To conclude, the 2007 Asian financial crisis and its global reverberation triggered a significant change in EDCs resilience strategy. This is manifested in EDCs policies of primary budget surpluses, foreign reserves accumulation, reduction of external exposure and external debt, and changes in global capital flows patterns. In this sense, the Asian financial crisis has been a geoeconomic moment for the EDCs and emerging powers<sup>47</sup>.

### **The EDCs’ emergent resilience infrastructure**

Despite the above developments (i.e. rebalancing of the global economy and new resilience), the main pillar on which the traditional EDCs vulnerability/resilience nexus relies has not changed, i.e. the dominant role of the US dollar in global trade and finance. The currency composition of external debt liabilities, is a key aspect here. As an UNCTAD report<sup>48</sup> notes:

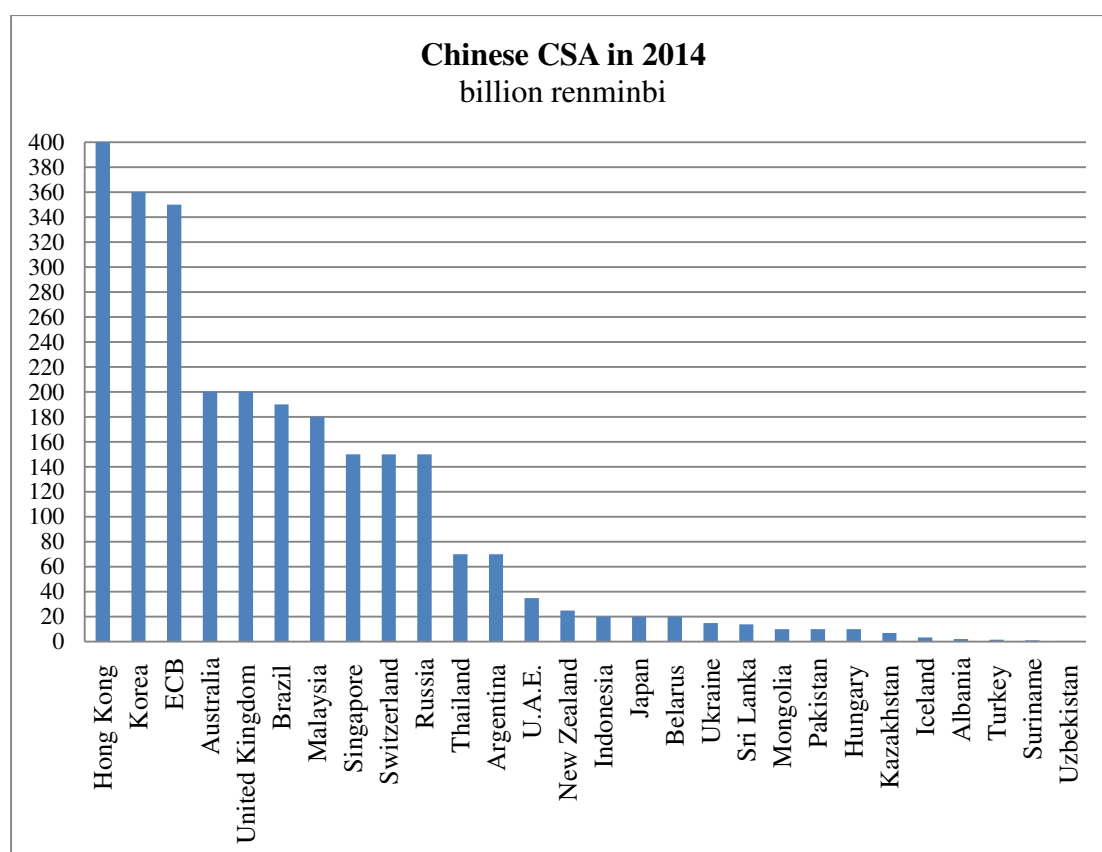
Focusing on currency composition helps to explain why developing countries face frequent debt crises and a country like the United States faces no problems sustaining its debt. The difference is not due to where they borrow as they both borrow abroad and, on average, developing countries borrow abroad less than the United States. They even borrow abroad in the same currency as the United States (mostly US dollar); the difference being that the United States can print the dollar, whereas developing countries cannot.

Here, the problem is that the great majority of the EDCs external debt is denominated in currencies, the monetary policy of which they do not control and cannot sufficiently influence<sup>49</sup>. For instance, in 2013, on average, 64.2% of the public debt of developing countries was denominated in US dollars (from 60.1% in 2007). The respective regional figures were 64.8% in East Asia and the Pacific, 68.1% in South Asia, and 74.3% in Latin America and the Caribbean<sup>50</sup>. This demonstrates not only the dominant position of US dollar in the global political economy of debt, but also the direct way in which monetary policy in the US impacts on the economy and debt sustainability of countries around the world. Vulnerability here relates to both the public and private sector. The Russian economic crisis in 2014/15, when the ruble collapsed against the dollar, is indicative. Russia's public external debt denominated in dollars, was very low at US\$ 27.7 billion (overall public external debt was also low, at US\$ 64 billion)<sup>51</sup>. Yet, in contrast to the public sector, the private sector was more exposed to the US dollar. Russian banks were holding dollar denominated liabilities of US\$ 132.5 billion and the 'other private sector' was holding liabilities of US\$267.1 billion. Therefore, the Russian government had to step in and take a number of measures aiming to provide the needed liquidity in dollars to the private sector, so as to prevent a domino of defaults that would eventually engulf the public sector, the sovereign itself. We find a similar exposure to the dollar in the great majority of large EDCs. Indicatively, in the last quarter of 2014, US dollar denominated claims as a share of cross-border claims was 78% in Brazil, 74% in India, and slightly above 60% in Russia, Korea and Mexico. Only in China it was significantly lower at 39%, from 54% in 2008<sup>52</sup>; a result of its strategy to reduce its exposure to dollar (see below).

Despite the dollar's dominant role today, it would be a mistake to reduce our reading of the global economy and the EDCs vulnerability/resilience nexus to the dominance of the dollar. In contrast, we should examine how the EDCs deal with this traditional source of vulnerability and whether their current responses are able to generate broader changes. In this context, a new wave of currency swap agreements (CSAs) among EDCs should not be underestimated. These agreements enhance the EDCs resilience by strengthening their foreign currency liquidity, and therefore their capacity to deal with crises related to their balance of payments, currency, or foreign debt. In addition, by facilitating the settlement of cross-border trade and investments in local currencies these agreements offer an alternative to the use of US dollar in international trade and finance.

Lessons from the recent economic history suggest caution. The non-utilization of the Chiang Mai Initiative in East Asia, as well as the failure of a number of bilateral CSAs in the past, e.g. between Brazil and Argentina, have cast a negative shadow to the ability of CSAs to deliver concrete policy results. Yet, the new global economic environment (defined by the increased weight of China), the high number of the current agreements in place and under negotiation, as well as some early findings on their impact, suggest that the effect of this new wave of CSAs on the EDCs resilience should not be ignored<sup>53</sup>. At the centre of these new dynamics is China. As part of its strategy to internationalize the renminbi, China has by far the most extended network of bilateral currency swap agreements<sup>54</sup>. Since 2009 the People's Bank of China (PBC) has negotiated 29 bilateral currency swap agreements, which together amount to ¥2.7 trillion renminbi (approx. 500 billion US\$). Most of these agreements have a 3-year duration and several have been extended, with an increase in the original amount agreed (Table 9). In 2014 the active credit line of all Chinese bilateral CSAs was at 1.1 trillion renminbi<sup>55</sup>. Furthermore, in 2011 China allowed for a first time designated banks to launch cross-currency swap operations for their private customers.

TABLE 9

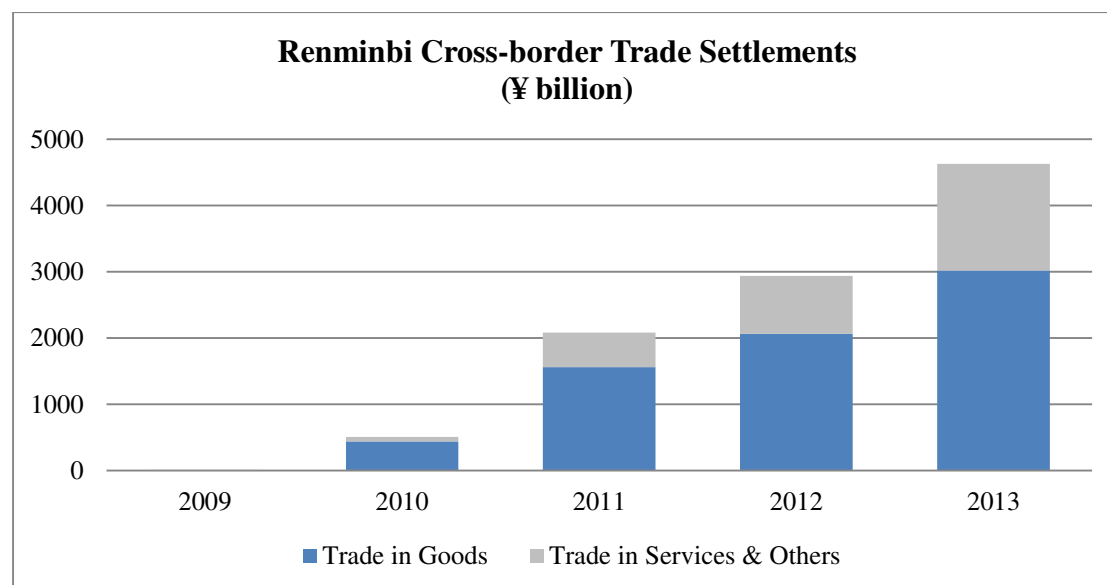


Source: Liao and McDowell (2014); Destais (2014); People’s Bank of China; Financial Times

Beyond the nominal amounts involved, the difference with the past is that these CSAs are gradually, if modestly, used. For instance, in 2014 the amount of renminbi actually used was 38 billion (approx. US\$ 1 billion), and at the end of 2014 there was a CSA-related outstanding amount of 15.8 billion renminbi<sup>56</sup>. Furthermore, these agreements have been used as part of a broader strategy of facilitating cross-border trade and investments in renminbi / local currencies (e.g. reals, rupees, rubles, rands etc). If successful, this strategy will reduce the exposure/vulnerability of the involved parts to the US dollar, and gradually reduce the all-dominant role of dollar in the global economy. China formally inaugurated its policy to establish renminbi as a pricing and settlement currency in July 2009, when it introduced a pilot scheme for renminbi trade settlements. The impact that this strategy had on the first four years of its implementation was impressive (see Table 10). The use of renminbi for settlements in ‘trade in goods’ increased from close-to-nothing in July 2009 to ¥3.02 trillion in 2013, accounting for 11.7 percent of the total value of Chinese trade in goods (import and

export), while these settlements involved companies from 174 different countries. Respectively, renminbi settlements in ‘trade in services and other current account items’ from close-to-nothing in 2009 reached ¥1.6 trillion in 2013. Thus, in 2013 renminbi denominated overall cross-border trade settlements reached ¥4.6 trillion (US\$ 750 billion). Respectively, FDI-related settlements reached ¥533.7 billion (US\$ 84 billion) in 2014, having almost double in comparison to the year before<sup>57</sup>. Thus, renminbi from place 20 in the ranking of global trade payment currencies in 2012, was between places 7 and 9 in 2014. The same year it emerged as the second most used currency in trade finance<sup>58</sup>. This trend is enhanced by a number of new arrangements that aim at fostering the international availability and convertibility of renminbi<sup>59</sup>, including the shift towards a more market-based (but still managed) exchange rate regime<sup>60</sup>, the introduction of a new cross-border interbank payment system<sup>61</sup>, specific programmes that aim to facilitate foreign investments in China’s capital markets (e.g. the Qualified Foreign Institutional Investor programme - QFII, and the respective Renminbi QFII), the issuance of renminbi denominated bonds in international markets, and the objective of achieving the inclusion of the renminbi in the basket of currencies that are used by the IMF in the valuation of its Special Drawing Rights (thus fostering the renminbi’s role as a global reserve currency)<sup>62</sup>. For instance, from 2014 the parity between the renminbi and the sterling is determined by average market day transactions between the two currencies and not through the US\$ as used to be the case until then; also, there is direct trading in the interbank market between renminbi and some foreign currencies (e.g. New Zealand dollar). The same year the UK was the first western government to issue renminbi denominated bonds<sup>63</sup>. Furthermore, easing its interbank exchange rate policy, the People’s Bank of China (PBC) allowed for a first time banks to set exchange rate quotes for their clients on the basis of market demand, and not within a 4% band against average day rates against the US dollar. Considering, however, the place of China in global economy, renminbi is still heavily underutilised in global trade and investments<sup>64</sup>.

TABLE 10



Source: The People's Bank of China, 2014

China is not the only emerging power that attempts to increase the use of its currency in trade and investment settlements. For instance, Brazil has also signed CSAs, most significantly with Argentina in 2008 (US\$1.8 billion)<sup>65</sup> and with China in 2013 (US\$ 30 billion)<sup>66</sup>. Furthermore, India has adopted a regional CSA strategy in South Asia. In a SAARC Finance meeting, in 2012, it was agreed that the Reserve Bank of India (RBI) would offer swap facilities to SAARC countries (Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka) up to US\$ 2 billion (both in foreign currency and Indian rupee)<sup>67</sup>. The same year the RBI signed a CSA with the Bank of Japan (BOJ) for US\$15 billion, which was renewed and expanded to US\$ 50 billion in 2014. RBI also signed a new bilateral CSA with Sri Lanka for US\$ 400 million in March 2015, with the Indian Prime Minister Narendra Modi stating that the purpose of this agreement was to ‘help keep the Sri Lankan rupee stable’<sup>68</sup>. Overall, India has concluded CSAs with more than 25 countries, in most cases prioritising countries with which it runs a current account deficit. It is worth mentioning that in the case of India’s relations with Iran, 45% of payments for oil imports in 2013 were made in rupees, and credited to an UCO Bank account in Kolkata. The balance was then made available in euros in Turkey<sup>69</sup>.

These bilateral CSAs can also be used by emerging powers as an instrument of economic statecraft and geopolitical (re)configuration. The recent CSA between China

and Russia is indicative here. It was signed in October 2014 and established a swap limit of 150 billion renminbi (approx. US\$ 25 billion). The agreement took place in a highly adverse international context for Russia, characterised by economic sanctions, increased international isolation (due to the annexation of Crimea), and a developing domestic financial crisis<sup>70</sup>. Although, the credit lines established were not sufficient to make a difference in stabilising the Russian financial sector and the ruble, or to act as a safety belt for the Russian economy, the agreement was important in many different ways. It offered an alternative to Russia against its isolation from the West, it brought the central banks of the two countries closer together institutionalising their currency swap cooperation, it gave to Russian companies space to decrease their dependency on the dollar in their new trade transactions, and most importantly it created a de-dollarisation dynamic in the cross-border trade and investment relations (including the energy sector) of two systemically important global economies; a development that has the capacity to have an impact on the global role of dollar as an exchange and reserve currency (even if this impact cannot challenge its dominant role). Equally important are the broader bilateral economic dynamics that this agreement has set off. For instance, Russian oil exports to China were increased by 36 percent in 2014, replacing other oil exporters such as Saudi Arabia<sup>71</sup>. Furthermore, the ruble was one of three currencies for which China launched a swap and forward contracts trade, in December 2014. In 2014 the total trade in renminbi on the Moscow Stock Exchange increased eight times, reaching 395 billion rubles (48 billion yuan)<sup>72</sup>. In this context, it is worth mentioning that Russia and India have also set as their target and are currently negotiating the terms of using their national currencies in bilateral trade settlements, with a deal expected to take place in 2016<sup>73</sup>.

Of course, this new CSA net is not devoid of power relations. For the great majority of EDCs, it does not signify a shift away from relations of power and dependency in the global economy, but rather a complex and slowly moving game of displacement and reordering of these power relations. In this way it will create new imbalances and dependencies in their current and capital accounts. But by creating (more) options for weaker EDCs, it increases their resilience capacity, and by doing so it creates new policy space for them which was not there before.

The example of the swap agreement between China and Argentina is indicative of such tensions and dynamics. The CSA agreement was signed in 2014 and worth US\$ 11 billion (it replaced a previous inactive bilateral CSA which was signed in 2009 and expired in 2012)<sup>74</sup>. In the context of this agreement the Central Bank of Argentina (BCRA) could request up to 70 billion renminbi in exchange for pesos to use them for imports or inward investments from China, or to exchange them for US dollars (or other foreign currencies) to boost its foreign reserves (i.e. its ability to defend the peso and/or deal with dollar shortages in relation to its external position). In the context of the July 2014 new default crisis in Argentina, and the country's stand-off with vulture funds, this new CSA was extensively used. By January 2015 Argentina had received in four instalments US\$ 2.7 billion that allowed the country to stabilise its falling foreign reserves. At the same time, it was agreed that Chinese companies will take over a number of 'strategic investments' in infrastructure in Argentina, including the construction of US\$4.7 billion hydroelectric project and the construction of a nuclear plant<sup>75</sup>. Yet, in this process of strengthening Sino-Argentinian relations, Argentina's current account surplus with China became a deficit of US\$5 billion in 2014<sup>76</sup>.

Based on the above analysis, it can be argued that the emergent network of currency swaps agreements among EDCs, and the broader dynamics that this network creates, increase both the resilience of EDCs to adverse external shocks and, at least in the case of emerging powers, their capacity to resist pressures emanating from advanced economies.

Beyond however the bilateral level, there is also a wide range of new plurilateral CSA arrangements among the EDCs<sup>77</sup>. For instance, in their July 2014 meeting in Fortaleza the BRICS established a US\$100 billion BRICS Contingent Reserve Arrangement (CRA). Article 1 of the CRA's founding treaty notes: 'The CRA is a framework for the provision of support through liquidity and precautionary instruments in response to actual or potential short-term balance of payments pressures'. Interestingly, the CRA follows the Chiang Mai model by linking funding above a certain threshold with IMF conditionality—the so called 'IMF-link' clause<sup>78</sup>. Thus, if any of the participating members requests more than 30% of its maximum quota, then funding is subject to 'evidence of an on-track arrangement between the IMF and the Requesting Party that involves a commitment of the IMF to provide financing to the Requesting Party based



on conditionality' (article 5). In this way, although the 30% 'de-linked portion' of the CRA can be thought of as a flexible line outside the 'structural adjustment' framework of the IMF, the 70% 'IMF-linked portion' should be understood as a BRICS driven and controlled extension of the existing IMF's funding instruments (mostly the 'Precautionary and Liquidity Line' and 'Flexible Credit Line')<sup>79</sup>.

In addition to the CRA initiative, there are a number of other plurilateral frameworks that have recently been concluded or are currently under negotiation, and aim to function either as backline liquidity support mechanisms, in the event of financial or currency crises (along the lines of the IMF), or as frontline development investment mechanisms (along the lines of the World Bank), or both. Two important regional initiatives in the backline liquidity support category are the updated Chiang Mai Initiative Multilateralisation (CMIM) in East Asia, and the Anti-Crisis Fund (ACF) of the Eurasian Economic Community (EurAsEC). The CMIM entered in force in 2014 and includes a currency swap arrangement with a total capacity of US\$240 billion (i.e. double the original Chiang Mai Initiative amount). The updated agreement includes a new crisis prevention facility, the CMIM Precautionary Line, that makes easier the provision of short-term emergency liquidity funding, and increases the 'de-linked portion' (i.e. funding that does not require IMF conditionality) from 20 to 30%<sup>80</sup>. The EurAsEC Anti-Crisis Fund, led by Russia, was established in 2009, and has a capacity of US\$ 8.5 billion. Its main aim is to support stabilisation / anti-crisis programs in EurAsEc members, but also includes funding for large investment projects<sup>81</sup>. Respectively, recent initiatives focusing on development funding, and especially large investments in infrastructure, include the BRICS-led 'New Development Bank - NDB' (2014, US\$100 billion)<sup>82</sup>, the 'China Silk Road Fund' (2014, US\$10 billion)<sup>83</sup> and the China-led, 'Asian Infrastructure Investment Bank - AIIB' (2015, US\$100 billion)<sup>84</sup>.

Any detailed analysis of the above initiatives is beyond our purpose here. Yet, the main point is that along with the emergent network of bilateral CSAs, there is also an expanding network of new plurilateral funding arrangements and institutions, mostly driven by BRIC countries. Although their capacity is rather limited, these initiatives make further resources available to EDCs (both outside and in conjunction with the traditional Bretton Wood system), thus enhancing the ability of emerging and developing countries to respond to economic crises and pressures emanating from the

advanced economies. As mentioned above, these new arrangements are not foreign to national interests, biases and power relations. Rather the opposite. If successful, they will generate and consolidate their own ('non Western') bias and power relationships. Yet, these developments clearly increase the policy space and alternatives available to the emerging and developing countries.

## **'New resilience' and Emerging Powers in the Context of US Monetary**

### **Tightening**

Can this new policy space and degrees of freedom survive in a post-crisis global economy defined by monetary tightening in the US? The historical record points to a negative answer. Increases in US interest rates in the past triggered capital flight, and waves of banking and currency crises and sovereign defaults in EDCs. To assess the EDCs vulnerability in these terms we need to place them in the historical context in which it occurs. As argued above, the EDCs' increased contribution to global GDP creates an economic environment in which the economic sustainability of advanced and emerging economies are causally related. In this context, and considering the fragile recovery process in advanced economies, rather than an outright outflow, the capital flow pattern that is most likely to persist in the new US monetary tightening global context is that of 'destabilising volatility', i.e. waves of abrupt outflows will be followed by respectively abrupt inflows<sup>85</sup>. We have already experience this pattern with abrupt outflows in 2008, 2012, 2015, followed by equally abrupt inflows in 2009-2010 and 2013<sup>86</sup>. There are two main reasons for this volatile capital flow pattern. First, due to the increased resilience and the emergent resilience infrastructure that we developed above, an abrupt collapse of the EDCs, similar to that experienced in the Asian crisis in 1997/98, is highly unlikely. Second, due to the fact that the advanced economies are not in a position to offer a solid alternative to emerging markets for private investment portfolios. Thus, although, investors in 'risk-adverse moments' retreat to the core (i.e. advanced economies), the risk and cost of doing so in the current juncture are too high.

It is not only that the majority of the advanced economies remain in rather uncharted waters, due to growing levels of debt, lack of effective deleveraging, and the unknown long term impact of QE policies<sup>87</sup>. It is also that the actual cost of a 'retreat to the core'

is rather unpredictable and high. The recent evidence of negative-yielding bonds is revealing. In the Eurozone the volume of negative-yielding bonds was estimated in January 2015 to be €1.2tn (a quarter of all outstanding Eurozone sovereign debt), up from €500bn in October 2014 and no negative-yielding bonds in June 2014<sup>88</sup>. These negative-yielding assets are not only a product of secondary trading. A number of countries of different risk premia (e.g. Germany, Finland, Spain, Ireland) sold short-term debt at negative yields in 2014, whereas Switzerland was the first country (in economic history!) to sell 10-year bonds at negative yields in April 2015<sup>89</sup>. No matter whether these developments is an indication of deflation expectation in Europe or a short-term strategy aiming at capitalising on the QE programme of the ECB, or both, it is a good example of the unconventional and uncertain moment that markets and yields go through in many advanced economies.

Yet, as mentioned in the beginning of this paper, increased resilience does not mean that the EDCs do not remain vulnerable to changes in advanced economies, and in particular a raise in US interest rates<sup>90</sup>. A prolonged period of uncertainty, and abrupt short term capital flows have the ability to undermine the EDCs' hard won resilience. Our analysis however indicates that changes have occurred with regard to the implications of this EDCs vulnerability. Considering the systemically important nature of the emerging powers' economies and the interlocking nature of the EDCs and advanced economies, this traditional problem/vulnerability of the EDCs is now a problem/vulnerability for the global economy as a whole. For, a new 1990s-like series of economic crises in emerging powers is bound to reverse the fragile recovery in advanced economies, in a period that the latter remain in uncharted waters and exposed in terms of debt and leverage.

## **Conclusion**

Emerging and developing countries demonstrated unexpected resilience in the face of 2008/09 global economic crisis. To understand what this resilience means for the global economy and its transformation, the paper attempted to shift the focus from the structural constrained faced by the EDCs, to the EDCs agency, and a number of dispersed initiatives that are currently taking place on the ground. This analysis made

clear that there is a new, BRIC-led resilience infrastructure under construction that increases the EDCs leverage and degrees of freedom in the global economy, but also in the realm of foreign policy. Focusing on how this resilience infrastructure develops and sets in motion de-dollarization dynamics is now critical for understanding the conditions of transformation of global economy.

It is also critical that these changes and challenges take place in conditions of systemic interlocking between the EDCs and advanced economies. Considering the systemically important nature of the economies of emerging powers, and the interlocking nature of the EDCs and advanced economies, any major crisis in the emerging powers will have a global impact and engulf the advanced economies. This context together with the emergent EDCs resilience infrastructure not only increase the leverage of emerging powers, but as mentioned above change the very structure in which the EDCs vulnerability/resilience nexus operated in the post-WWII order. Of course, different EDCs are affected differently by these developments. For the great majority of EDCs these developments are mostly translated into more ‘options’ for ‘dependency’ in their economic and foreign policy, rather than resilience capacity. But these ‘more options’ create new policy space even for the weaker EDCs. And this new policy space creates room for agency and change which was not there before.

The anticipated US monetary tightening and the currently experienced heightened volatility in short term capital flows put at new stress the emerging and developing powers and their new resilience. Although, an abrupt collapse of the EDCs, similar to that experienced in the Asian crisis in 1997/98, is highly unlikely, exactly due to the EDCs new resilience and related arrangements, a new series of EDCs economic crises cannot be excluded. A number of factors complicate further the current economic juncture. For instance, increased geopolitical uncertainty (especially in relation to the Ukrainian crisis and Russia, the role of ISIS and instability in the Middle East), new geopolitical dynamics (e.g. the rapprochement of Russia and China), as well as heightened competition between the US and China (for instance with regard to the US-driven Transpacific Partnership, and the China-driven Regional Comprehensive Economic Partnership; the US initial stance towards the China-driven AIIB initiative; tensions in the South China sea).

All these factors, but above all a series of new economic crises in the emerging and developing world, have the potential to act as a new geoeconomic moment for emerging powers. We discussed above how the 1990s financial crises functioned as a geoeconomic moment that forced emerging powers to change their mode of integration in the global economy, redefining the EDCs traditional vulnerability/resilience nexus. A new major economic crisis engulfing the EDCs today could act as a respective geoeconomic moment, creating a new rift in the global economy. This possibility, by its very existence, defines a new global geoeconomic chessboard. For, such a crisis would force the emerging powers to openly challenge the dominant role of the US currency and the legitimacy of the Bretton Woods global economic architecture. No country or group of countries currently seems willing to take such a risk. This reinforces our conclusion that emerging powers and advanced economies are mutually bounded, at least in the context of the current global economic paradigm. It also reflects the constrained policy space available to the advanced economies in the new global economic chessboard.

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<sup>1</sup> The paper follows the IMF classification for ‘advanced economies’ (37 countries), and ‘emerging and developing economies’ (152 countries). Whenever needed, we narrow down the focus of our analysis on emerging powers, defined as the developing countries that are members of G20.

<sup>2</sup> See IMF, *World economic outlook* (Washington DC: IMF, 2014a) p. 129; Carol Wise, Leslie Elliott Armijo and Saori Katada, eds., *Unexpected outcomes: How emerging economies survived the global financial crisis* (Washington DC: Brookings institution press, 2014); Tatiana Didier et al, ‘How resilient and countercyclical were emerging economies during the global financial crisis?’, *Journal of International Money and Finance* 31:8, 2012, pp. 2052–2077; John Ammer et al, ‘Has international financial co-movement changed?’, in Jonathan Batten and Peter Szilagyi eds., *The impact of the global financial crisis on emerging financial markets* (Bingley: Emerald, 2011); Ayhan Kose and Eswar Prasad, *Emerging markets: Resilience and growth amid global turmoil* (Washington DC: Brookings Institution Press, 2010).

<sup>3</sup> Didier et al ‘How resilient and countercyclical were emerging economies’.

<sup>4</sup> See for instance Thierry Bracke et.al., *A framework for assessing global imbalances* (Frankfurt: ECB 2008), pp. 13–16.

<sup>5</sup> Indicatively, Deutsche Bank, *SWF and Foreign Investment Policies*, Deutsche Bank Research, 22 October 2008.

<sup>6</sup> See also Lino Briguglio et al., ‘Economic Vulnerability and Resilience’, UNU-WIDER research paper no. 2008/55 (Helsinki: UNU-WIDER, 2008); Didier et al ‘How resilient and countercyclical were emerging economies’ p. 2. Traditionally, economic resilience analysis focused on small developing countries. For a recent review see: Denny Lewis-Bynoe, ed., *Building the resilience of small states* (London: Commonwealth Secretariat, 2014). Yet, after the 2008/9 economic crisis there has been a renewed academic and policy interest in the study of economic resilience in emerging and advanced economies (see references in footnote 1 above. See also Caldera Sánchez et al, ‘Economic Resilience’, OECD Economics Department Working Papers, No. 1251 (Paris: OECD, 2015).

<sup>7</sup> See Lino Briguglio et al., ‘Economic Vulnerability and Resilience’.

<sup>8</sup> See Barry Eichengreen et al, ‘Currency mismatches, debt intolerance, and the original sin’, in Sebastian Edwards ed., *Capital controls and capital flows in emerging economies* (Chicago: University of Chicago Press, 2007). See also below in this paper, pp.xx-xx.

<sup>9</sup> Kose and Prasad, *Emerging Markets*, p. 2.

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- <sup>10</sup> Kose and Prasad, *Emerging Markets*, chs. 7-9.
- <sup>11</sup> Soyoung Kim et al, 'Emerging Asia: Decoupling or Recoupling', *The World Economy* 34:1, 2011, pp. 23–53
- <sup>12</sup> Eduardo Levy Yeyati and Tomas Williams, 'Emerging economies in the 2000s: Real decoupling and financial recoupling', *Journal of International Money and Finance*, 31:8, 2012, pp. 2102–2126
- <sup>13</sup> Among others see the contributions in: Eric Helleiner et al, eds., *Global Finance in Crisis* (New York: Routledge, 2009); Kevin Gray and Craig Murphy, eds., *Rising Powers and the Future of Global Governance* (Abingdon: Routledge, 2013).
- <sup>14</sup> Eric Helleiner, *The Status Quo Crisis* (Oxford: Oxford University Press, 2014).
- <sup>15</sup> Kevin Gallagher, *Ruling Capital* (Ithaca: Cornell University Press, 2014).
- <sup>16</sup> See Mikko Huotari and Thilo Hanemann, 'Emerging Powers and Change in the Global Financial Order', *Global Policy* 5:3, 2014, pp. 298–310.
- <sup>17</sup> Leslie Elliott Armijo and Saori Katada, 'Theorizing the Financial Statecraft of Emerging Powers', *New Political Economy*, 20:1, 2015, pp. 42-62.
- <sup>18</sup> Gregory Chin, 'Remaking the Architecture', *International Affairs* 86:3, pp. 693–715.
- <sup>19</sup> Adriana Abdenur and Maiara Folly, 'The New Development Bank and the Institutionalization of the BRICS', *(R)evolutions* 3:1, 2015, pp. 66-92.
- <sup>20</sup> UNCTAD, *Trade and development report* (New York: UNCTAD, 2013).
- <sup>21</sup> IMF, *World economic outlook*, (Washington DC: IMF 2014).
- <sup>22</sup> World economic outlook online database, accessed 10 February 2015.
- <sup>23</sup> It is worth emphasizing here that these data are in PPP and not current prices. For a discussion about this difference see UNCTAD, *Trade and development report*, 23–24; IMF, *An uneven global recovery continues*. World economic outlook update (Washington DC: IMF 2014), p. 4.
- <sup>24</sup> Angus Maddison, *Chinese Economic Performance in the Long Run, 960-2030*, 2<sup>nd</sup> edition (Paris: OECD, 2007).
- <sup>25</sup> See Andreas Antoniadis, 'Recasting the Power Politics of Debt', *Third World Quarterly* 34:2, 2013, pp. 214–232.
- <sup>26</sup> Dobbs et al, *Debt and (not much) deleveraging*, (London: McKinsey Global Institute, 2015), p. 4. The respective figure for the BRIC economies was 132.5%.
- <sup>27</sup> Dobbs et al, *Debt and (not much) deleveraging*, (London: McKinsey Global Institute, 2015).

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<sup>28</sup> See also Kim, Lee and Park, ‘Emerging Asia’. For econometric findings on the impact of China’s growth pattern on the rest of the world see: Arora and Vamvakidis *China’s Economic Growth*, IMF Working Paper, WP/10/165 (Washington DC: IMF, 2011); Ahuja and Nabar *Investment-Led Growth in China*, IMF Working Paper, WP/12/267 (Washington DC: IMF, 2012).

<sup>29</sup> Gregory Chin, ‘Remaking the Architecture’; Paul Bowles, ‘Asia’s post-crisis regionalism’, *Review of International Political Economy* 9:2, 2002, pp. 244–270; Mendoza, ‘Was the Asian crisis a wake-up call?’; Eric Helleiner, *The Status Quo Crisis*, pp.31-34; Philip S. Golub, ‘From the New International Economic Order to the G20’, *Third World Quarterly* 34:6, 2013, pp. 1000–1015.

<sup>30</sup> Indicatively see Gregory Chin, ‘Remaking the Architecture’; Mendoza, ‘Was the Asian crisis a wake-up call?’; Kose and Prasad, *Emerging Markets*, ch. 13; Didier et al, ‘How resilient and countercyclical were emerging economies’; Wise, Armijo and Katada, *Unexpected outcomes*.

<sup>31</sup> World Economic Outlook online database, accessed 10 Feb. 2015.

<sup>32</sup> World Economic Outlook online database, accessed 10 Feb. 2015.

<sup>33</sup> World Bank Open Data, accessed 10 Feb. 2015; see also Mendoza, ‘Was the Asian crisis a wake-up call?’; Julia Leung, *Facing the Flood: How Asia Is Coping With Volatile Capital Flows* (London: RIIA, 2014).

<sup>34</sup> See Dani Rodrik, ‘The social cost of foreign exchange reserves’, *International Economic Journal* 20:3, 2006, pp. 253–266; Juan Pablo Painceira, ‘Developing countries in the era of financialization’, in: Costas Lapavitsas ed., *Financialisation in crisis* (Boston: Brill, 2012), pp. 185–215.

<sup>35</sup> For the issue of external debt as a source of vulnerability in the EDCs see Claudio M Loser, *External Debt Sustainability*. G-24 Discussion Papers (New York: UNCTAD, 2004); Ugo Panizza, ‘Is domestic debt the answer to debt crises?’, in: Barry Herman et al, eds., *Overcoming developing country debt crises* (Oxford: Oxford University Press, 2010), pp. 91–107; John Williamson, ‘Implications of the East Asian crisis for debt management’, paper presented to a conference on External Debt Management, Kerala: Reserve Bank of India, 1999.

<sup>36</sup> World Economic Outlook database, accessed 10 Oct. 2014; see also World Bank, *International Debt Statistics* (Washington DC: World Bank, 2014 and 2015).

<sup>37</sup> World Economic Outlook database, accessed 10 Oct. 2014.

<sup>38</sup> World Bank, *International Debt Statistics*, 2015, p. 14; see also World Bank, *Global Development Finance: External Debt of Developing Countries* (Washington DC: World Bank, 2012).



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<sup>39</sup> Author's calculations using IMF data (Dec. 2015); the figures include annual changes in reserves.

<sup>40</sup> All data in this section come from World Bank Open Data, accessed 10 Feb. 2015.

<sup>41</sup> For differences in capital flows between BRIC, see Ritwik Banerjee and Pankaj Vashisht, 'The financial crisis: impact on BRIC and policy response', MPRA Paper No. 38812, May 2012; see also Leung, *Facing the Flood*. Latest data seem to confirm this pattern. See, IIF, *Capital Flows to Emerging Markets* (Washington DC: IIF, 2015), p. 1; World Bank, *International Debt Statistics*, 2015.

<sup>42</sup> For econometric evidence see Pelin Berkmen et al, 'The global financial crisis: Explaining cross-country differences in the output impact', *Journal of International Money and Finance*, 31:1, 2012, pp. 42–59; Charalambos G. Tsangarides, 'Crisis and recovery: Role of the exchange rate regime in emerging market economies', *Journal of Macroeconomics* 34:2, 2012, pp. 470–488; Didier et al, 'How resilient and countercyclical were emerging economies', pp. 2068–2070.

<sup>43</sup> See also Huotari and Hanemann, 'Emerging Powers and Change in the Global Financial Order', pp. 302–304.

<sup>44</sup> Alejandro Jara et al, 'The global crisis and Latin America', *BIS Quarterly Review*, 2009.

<sup>45</sup> See SWFI, 'More Direct Sovereign Wealth Money Pouring Into BRIC countries', *Sovereign Wealth Fund Institute*, 2014; Alan Gelb and Silvana Tordo, 'Sovereign Wealth Funds Are Coming Home', *Growth and Crisis Blog, World Bank Institute*, 2014.

<sup>46</sup> World Bank, *International Debt Statistics*, 2015.

<sup>47</sup> See also Gregory Chin, 'Remaking the Architecture'; For a definition of geoeconomics see Baru 'Geo-economics and Strategy', *Survival* 54:3, 2012, pp. 47–58.

<sup>48</sup> UNCTAD, *The impact of the financial and economic crisis on debt sustainability in developing countries* (New York: United Nations, 2009), p. 12.

<sup>49</sup> For a discussion on the sources and implications of this phenomenon see Barry Eichengreen et al, 'The Pain of Original Sin', in Barry Eichengreen, and Ricardo Hausmann eds, *Other People's Money* (Chicago: University of Chicago Press, 2005); Barry Eichengreen et al, 'Currency mismatches, debt intolerance, and the original sin', in Sebastian Edwards ed., *Capital controls and capital flows in emerging economies* (Chicago: University of Chicago Press, 2007).

<sup>50</sup> World Bank, *International Debt Statistics*, 2015.

<sup>51</sup> Official data from the Central Bank of Russia's website. The external public debt figures refer to September 2014 and include both 'government' and 'central bank' liabilities. For instance, in

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September 2014, the government's and central bank's external debt denominated in US\$ was 23.7 and 4 billion respectively.

<sup>52</sup> BIS, *Quarterly Report*, 2015, pp. 3–4.

<sup>53</sup> See also Christophe Destais, *Central Bank Currency Swaps and the International Monetary System*, CEPII Policy Brief, Paris, 2014.

<sup>54</sup> Steven Liao and Daniel McDowell, 'Redback rising: China's bilateral swap agreements and renminbi internationalization', *International Studies Quarterly*, 2014, pp. 1-22; Destais, *Central Bank Currency Swaps and the International Monetary System*.

<sup>55</sup> People's Bank of China, *China Monetary Policy Report, Quarter Four, 2014* (Beijing: Monetary Policy Analysis Group, 2015).

<sup>56</sup> People's Bank of China, *China Monetary Policy Report, Quarter Four, 2014*, p. 20.

<sup>57</sup> People's Bank of China, *Annual Report 2013* (Beijing: 2014), p. 69.

<sup>58</sup> Deutsche Bank, *At the centre of RMB internationalisation*, 2014, p. 3.

<sup>59</sup> This policy is not without significant risks, especially with regard to domestic monetary and financial stability. See Eric Helleiner, *The Status Quo Crisis*, pp. 67-72.

<sup>60</sup> See for instance the PBC's press release 'The PBC Spokesman Answered Press Questions on Improving Quotation of the RMB Central Parity', 11/08/2015.

<sup>61</sup> See, PBC, 'Milestone of RMB Internalization: RMB Cross-border Inter-bank Payment System Starts Operation', 14/10/2015.

<sup>62</sup> Currently this IMF basket of reserve currencies includes only the US dollar, the euro, the Japanese yen, and the pound sterling. See: <http://www.imf.org/external/np/exr/facts/sdr.htm>.

<sup>63</sup> The actual amount involved was rather symbolic (£300 million / ¥3 billion). See, Moore and Noble, 'UK takes first orders for debut renminbi bond', *Financial Times*, 14 Oct. 2014.

<sup>64</sup> See Marc Auboin, *Use of Currencies in International Trade*, Staff Working Paper (Geneva: WTO, 2012); Paola Subacchi and Helena Huang, *The Connecting Dots of China's Renminbi Strategy: London and Hong Kong*. Chatham House Briefing Paper, 1 Sept. 2012; Samar Maziad et al., *Internationalization of Emerging Market Currencies*, IMF Staff Discussion Note (Washington DC: IMF, 2011).

<sup>65</sup> For the terms of the agreement and the amounts used annually see the Central Bank of Brazil official data at: <http://www.bcb.gov.br/?SMLEOPERAT>, accessed 2 May 2015.

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<sup>66</sup> Brazil was also part of the US Fed's massive liquidity swaps programme. For the latter see, [http://www.federalreserve.gov/monetarypolicy/bst\\_liquidityswaps.htm](http://www.federalreserve.gov/monetarypolicy/bst_liquidityswaps.htm); Eric Helleiner, *The Status Quo Crisis*, pp.34-40.

<sup>67</sup> See the RBI press release at: [https://rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=26475](https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=26475). This policy was built on a previous policy of credit lines for bilateral trade purposes that RBI had with Sri Lanka (2004, US\$25 million; 2002, \$31 million), Cambodia (2002, \$10 million), Lao (2002, \$10 million), Mauritius (2001, \$100 million), Myanmar (2000, \$15 million), Seychelles (2000, \$2 million). Under these agreements the recipient countries use these credit lines to import goods from India.

<sup>68</sup> See, Modi 'Media statement during visit to Sri Lanka', Ministry of External Affairs, India, 2015. The Sri Lankan rupee faced downwards pressures due to the planned US monetary tightening.

<sup>69</sup> See A.K. Ramdas, 'India's currency swap arrangements with 23 countries', *MoneyLife*, 30 Dec. 2013.

<sup>70</sup> Another US\$400 billion deal for natural gas supply from Russia to China had been signed in May 2014.

<sup>71</sup> Cunningham, 'Russia and China's growing energy relationship', *OilPrice.com*, 28 Jan. 2015.

<sup>72</sup> Pravda, 'USA concerned about ruble-yuan currency pair trade at Moscow Stock Exchange', *English pravda.ru*, 18 March 2015.

<sup>73</sup> See the official statements by Modi and Putin in: TASS, 'Russia, India will expand payments in national currencies — Putin', 11 December 2014; see also: EM, 'More de-dollarization: India and Russia on the verge of currency agreement', *EMerging Equity*, 3 March 2015.

<sup>74</sup> According to the Central Bank of Argentina (Banco Central de la Republica Argentina – BCRA) the terms of the new agreement were 'substantially improved'; see BCRA, *Financial Stability Report* (Buenos Aires: BCRA, 2014), p. 3.

<sup>75</sup> See Andrew Rogers, 'China currency swap to lift Argentina reserves to over US\$30bn', *BNamericas*, 3 Dec. 2014.

<sup>76</sup> For the implications and domestic protest against the agreement see: Buenos Aires Herald, 'In focus: the currency swap deal with China,' 20 July 2014; Rogers, 'China currency swap to lift Argentina reserves to over US\$30bn'; Carol Wise and Yong Zhang, 'China and Latin America's Emerging Economies: Debates, Dynamism, and Dependence', paper presented in *The Political Economy of China-Latin American Relations, ISA-FLACSO Conference*, Buenos Aires, Argentina, 25 July 2014;

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Fermin Koop, 'Nothing to hide in bilateral deals with China', *Buenos Aires Herald*, 21 March 2015; Eduardo Daniel Oviedo, 'With Currency Swap, Argentina Becomes Dependent on China (interview)', *World Politics Review*, 29 Jan. 2015.

<sup>77</sup> For a recent detailed overview see Toshiyuki Miyoshi et al., *Regional Financing Arrangements* (Washington DC: IMF, 2013); see also Golub, 'From the New International Economic Order to the G20', pp. 1010–1012; Huotari and Hanemann, 'Emerging Powers and Change in the Global Financial Order', pp. 305–306.

<sup>78</sup> C. Randall Henning, *East Asian Financial Cooperation*. Policy Analyses in International Economics 68, Peterson Institute for International Economics, 2002.

<sup>79</sup> For contrasting views see Patrick Bond, 'In Fortaleza, BRICS became co-dependent upon eco-financial imperialism', *TeleSur*, 28 July 2014; and Horace Campbell, 'Challenging the exorbitant privilege of the U.S. dollar', *Counterpunch*, 29 July 2014.

<sup>80</sup> Reza Siregar and Akkharaphol Chabchitichaidol, *Enhancing the Effectiveness of CMIM and AMRO* (Manila: Asian Development Bank Institute, 2013).

<sup>81</sup> See the official ACF webpage, at: <http://acf.eabr.org/e/>, accessed 17 May 2015.

<sup>82</sup> See the official NDB website, at: <http://ndbbrics.org>, accessed 17 May 2015. See also, Griffith-Jones, 'A Brics Development Bank', UNCTAD Discussion Papers No. 215, 2014; Adriana Abdenur and Maiara Folly, 'The New Development Bank'.

<sup>83</sup> Elvin Ouyang, 'The Opportunities of China's "One Belt One Road"', *Global Risk Insights*, 23 March 2015.

<sup>84</sup> See the official AIIB website, at: <http://www.aiibank.org>, accessed 17 May 2015.

<sup>85</sup> See also Leung, *Facing the Flood*.

<sup>86</sup> For differences in capital flows between BRIC, see Ritwik Banerjee and Pankaj Vashisht, 'The financial crisis: impact on BRIC and policy response', MPRA Paper No. 38812, May 2012; see also Leung, *Facing the Flood*. Latest data seem to confirm this pattern. See, IIF, *Capital Flows to Emerging Markets* (Washington DC: IIF, 2015), p. 1; World Bank, *International Debt Statistics*, 2015.

<sup>87</sup> Among others, Dobbs et al, *Debt and (not much) deleveraging*.

<sup>88</sup> Christopher Thompson, 'Investors put €1.2tn into negative havens', *Financial Times*, 8 January 2015.

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<sup>89</sup> Elaine Moore and Ferdinando Giugliano, ‘Switzerland becomes first to sell 10-year debt at negative yield’, *Financial Times*, 8 April 2015.

<sup>90</sup> In any case, a monolithic narrative on US monetary tightening on emerging powers is not able to grasp the EDCs diversity. See for instance, IMF, *World economic outlook*, 2014, pp. 113–151.