

The new resilience of emerging and developing countries: systemic interlocking, currency swaps and geoeconomics

Article (Accepted Version)

Antoniades, Andreas (2017) The new resilience of emerging and developing countries: systemic interlocking, currency swaps and geoeconomics. *Global Policy*, 8 (2). pp. 170-180. ISSN 1758-5880

This version is available from Sussex Research Online: <http://sro.sussex.ac.uk/id/eprint/58658/>

This document is made available in accordance with publisher policies and may differ from the published version or from the version of record. If you wish to cite this item you are advised to consult the publisher's version. Please see the URL above for details on accessing the published version.

Copyright and reuse:

Sussex Research Online is a digital repository of the research output of the University.

Copyright and all moral rights to the version of the paper presented here belong to the individual author(s) and/or other copyright owners. To the extent reasonable and practicable, the material made available in SRO has been checked for eligibility before being made available.

Copies of full text items generally can be reproduced, displayed or performed and given to third parties in any format or medium for personal research or study, educational, or not-for-profit purposes without prior permission or charge, provided that the authors, title and full bibliographic details are credited, a hyperlink and/or URL is given for the original metadata page and the content is not changed in any way.

**pre-proof accepted version of an article
published in Global Policy**



Global Policy

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

Authors: Andreas Antoniadis

DOI:10.1111/1758-5899.12399

Andreas Antoniadis

Department of International Relations

University of Sussex

Andreas Antoniadis is a Senior Lecturer in Global Political Economy at the University of Sussex. He convenes the Global Debt Dynamics Initiative that is led by the Centre for Global Political Economy and the Institute of Development Studies at Sussex. His recent work focuses on debt dynamics, financialisation and rising powers.

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

abstract

The vulnerability/resilience nexus that defined the interaction between advanced and developing economies in the post-WWII era is undergoing a fundamental transformation. Yet, most of the debate in the current literature is focusing on the structural constraints faced by the Emerging and Developing Countries (EDCs) and the lack of changes in the formal structures of global economic governance. This paper challenges this literature and its conclusions by focusing on the new conditions of systemic interlocking between advanced and emerging economies, and by analysing how large EDCs have built and are strengthening their economic resilience. We find that a significant redistribution of ‘policy space’ between advanced and emerging economies have taken place in the global economy. We also find that a number of seemingly technical currency swap agreements among EDCs have set in motion changes in the very structure of global trade and finance. These developments do not signify the end of EDCs’ vulnerability towards advanced economies. They signify however that the economic and geoeconomic implications of this vulnerability have changed in ways that constrain the options available to advanced economies and pose new challenges for the post-WWII economic order.

Acknowledgements: I am grateful to Barry Gills, Achin Vanaik, Kevin Gray, Julian Germann, Xu Mingqi, Giorgio Romano, Gonzalo Berron and the anonymous reviewers for comments and suggestions on earlier versions of this paper. Mistakes and misunderstandings remain my own.

Policy Implications

- By extending and strengthening the existing network of bilateral and plurilateral currency swap agreements, EDCs can reduce the vulnerabilities generated by the dominant role of US dollar in international trade and finance.
- Small and medium developing countries must exploit the new ‘policy space’ created through the competition between Bretton Woods and BRICS led financing initiatives.
- Advanced economies should accommodate EDCs’ concerns in their economic and monetary policies, in order to avoid a new global economic meltdown.
- Global economic institutions must find ways to deal effectively with the hypervolatility generated by short-term capital flows in order to avoid a new global economic crisis.

Introduction

The emerging and developing countries (EDCs)¹ demonstrated unexpected resilience in the face of global economic crisis². There have not been generalised currency-collapses, bank insolvencies, and debt defaults. On the contrary, it was the first time in modern history that EDCs, especially emerging powers, not only demonstrated strong capacity to use countercyclical economic measures (Didier *et al.*, 2012), but also bailed out the advanced economies (see for instance Bracke *et al.*, 2008, pp. 13–16). Thus massive amounts of money moved, mostly through sovereign wealth funds, from EDCs to advanced economies, offering critical support for the recapitalisation of a great number of leading western banks and corporations.

This paper focuses on 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, and its implications for the emerging powers of the global South.

Resilience is conceptualised as the ability of the EDCs to deal with external economic shocks and persistent adverse international economic conditions (e.g. a prolonged period of low growth or high interest rates in advanced economies)³. 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. 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. Resilience is not and cannot be captured and analysed just as a set of economic indicators (e.g. GDP growth, debt exposure). To capture this embedded approach to resilience, the paper uses 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. This would signify a transformation of the ‘resilience capacity’ of EDCs, rather than just an increase in their ‘ability to endure’ external crises.

Despite modest growth in advanced economies, the EDCs demonstrated impressive growth rates over the last decade. This threw the traditional EDCs’ vulnerability analysis into sharp relief, and questioned the ‘conventional wisdom that when the US economy sneezes the rest of the world catches a cold’ (Kose and Prasad, 2010, p. 2). 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 (Kose and Prasad, 2010, chs 7-9), others pointing to exactly the opposite direction of recoupling and increased interdependence (Kim *et al.*, 2011), and some referring to decoupling in terms of business cycles but recoupling in terms of financial markets (Levy Yeyati and Williams, 2012; for a review see also Christian Buelens, 2013, pp. 30–36). Yet, this de/recoupling literature offers us a rather static perspective on the EDCs’ place in the global economy. Put differently, it tell us very few things about 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’ resilience capacity.

Another wave of literature has attempted to avoid this static approach by developing an agent-centric perspective (see the contributions in Helleiner *et al.*, 2009; Gray and Murphy, 2013). Eric Helleiner (2014) 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. On this, Kevin Gallagher's (2014) research on EDCs' capital control 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 vulnerabilities. Similarly, Mikko Huotari and Thilo Hanemann (2014) assess the increased capacity of the BRIC countries to challenge the parameters of the global economic system, and Leslie Armijo and Saori Katada (2015) 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. From a different perspective but with similar aims Gregory Chin (2010) has assessed the limits of EDCs' regional financing initiatives, and Adriana Abdenur and Maiara Folly (2015) have examined the degree of institutionalisation of the BRICS, through an assessment of their New Development Bank.

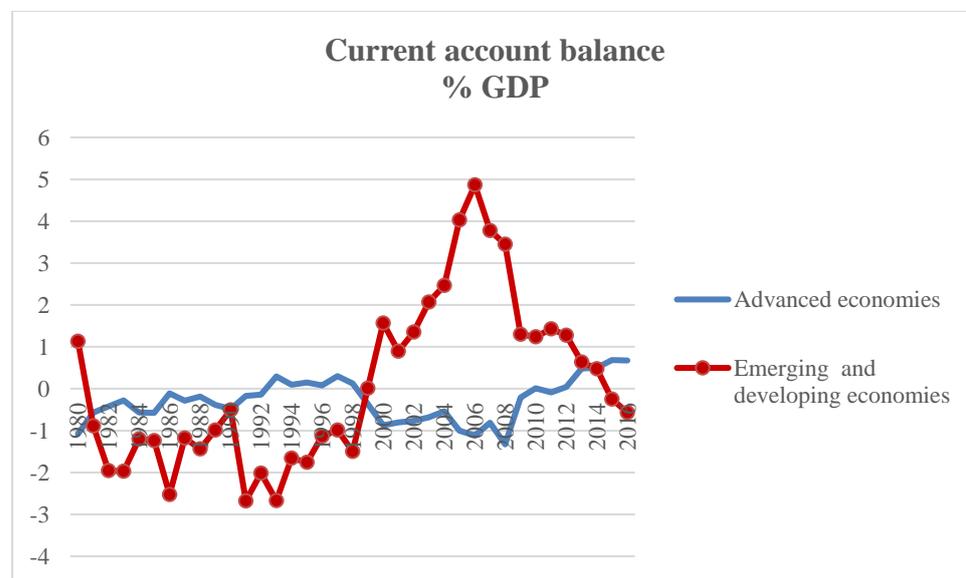
This paper attempts to advance the above literature by offering one of the first systematic assessments on how dispersed resilience-related sources and arrangements are coming together to challenge (or not) the EDCs' traditional vulnerability/resilience nexus. Literature on this issue remains limited. 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 not many systematic efforts that attempt to conceptualise how these different activities are interrelated, and to what effect. We do not know enough about a wide range of new diverse 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 in which the vulnerability/resilience nexus operates. Filling this gap requires moving beyond structural explanations focusing on US dominance, static econometric evidence, formal economic vulnerability indicators, and changes in the Bretton Woods institutions. It requires us 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. changes in voting power in IMF). Following this rationale, 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.

Global rebalancing

The global economic crisis led to a rapid global readjustment between the advanced and emerging/developing economies. In 2006 the emerging and developing countries ran a large current account surplus of 4.9 per cent of their GDP. The same year advanced economies ran a current account deficit of 1.1 per cent of their GDP. By 2009 the surplus of EDCs had been reduced to 1.3 per cent, while the deficit of advanced economies had been reduced to 0.2 per cent. 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

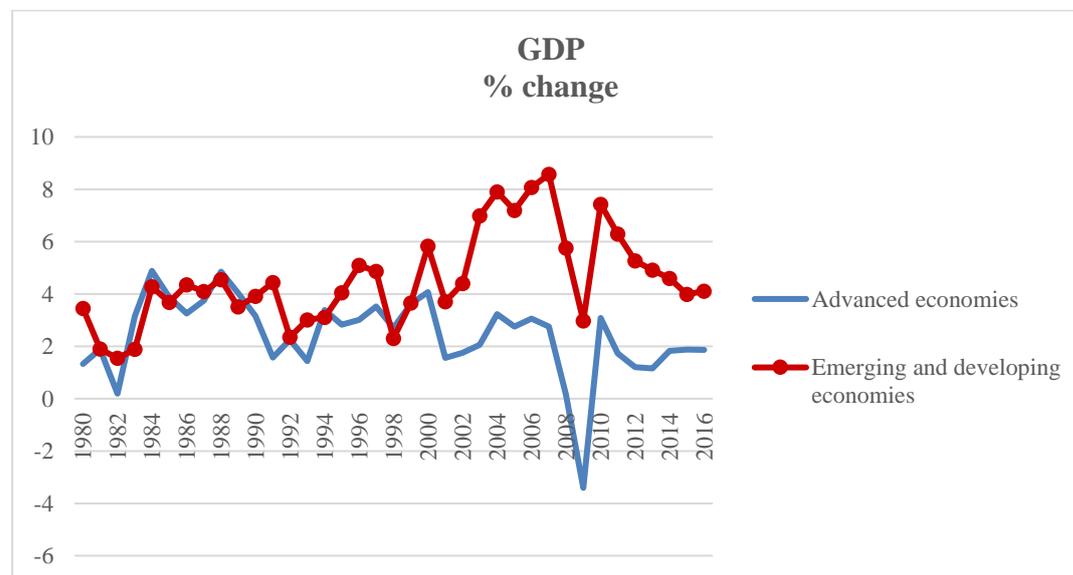


Source: IMF, September 2016; estimate for 2016

Considering the abrupt nature and the magnitude of this readjustment, one would expect growth in the EDCs to collapse. Yet, although the EDCs' growth rates were severely 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 rebounded quickly and acted as the main drivers of global growth, accounting for two thirds of this growth from 2010 onwards (UNCTAD, 2013). In the period 2007-2015, the advanced economies registered on average an annual growth rate of 1.15 per cent (the figure for G7 was even lower at 0.95 per cent) whereas the respective figure for the emerging and developing economies was 5.53 per cent (IMF, 2016).

TABLE 2

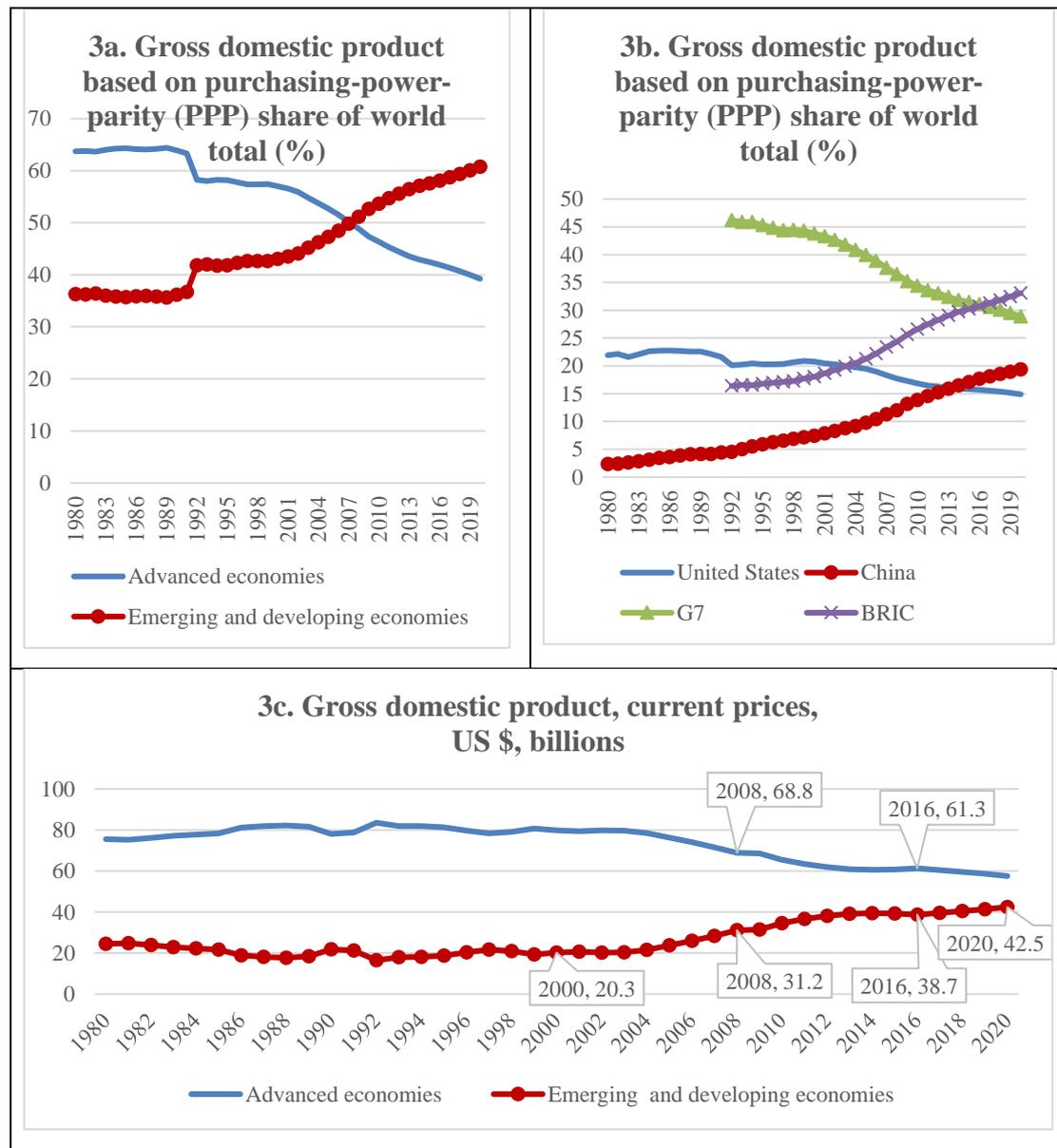


Source: IMF, September 2016; estimate for 2016

The broader historical-economic context of the above 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 per cent respectively. In 2000, this gap had been reduced to 57 vs. 43 per cent. The year 2008 was the first year that the EDCs' contribution to global GDP exceeded that of the developed economies (51 per cent for the developing countries). By 2015, this gap in favour of the EDCs, had been widened to 58 vs. 42 per cent. Furthermore, 2014 was the first year that in PPP terms China overtook the US as the largest economy of the world, a trend that is projected to continue thereafter (Table 3b). Respectively, BRIC's contribution to global GDP has almost reached that of G7 economies in 2015 (31.5 vs.

30.2 per cent), and according to IMF projections 2017 will be the first year that BRIC's contribution to global GDP will exceed that of G7. In current prices the EDC's contribution to global GDP has almost doubled from 20% in 2000 to 39% in 2016 (Table 3c)⁴.

TABLE 3a, 3b, 3c



Source: Author calculations based on IMF September 2016 data; Estimates for 2016-20.

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 (see also Quah, 2011; Christian Buelens, 2013). And this points to a transformation of the very context that defined the EDCs' post-WWII conditions of vulnerability and resilience. Through this transformation large EDCs emerge as '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 change 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 the 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 (see also Kim *et al.*, 2011; Christian Buelens, 2013. For econometric findings on the impact of China's growth pattern on the rest of the world see: Arora and Vamvakidis, 2011; Ahuja and Nabar, 2012). 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 (40 per cent 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 large 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 characterised by collapsing 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, EDCs' crisis contagion could be contained by advanced economies, in the current context a crisis in EDCs is bound to have global repercussions, affecting if not derailing the fragile recovery of advanced economies. Put differently, the emergence of systemic interlocking between advanced economies and EDCs has led to a new global economic chessboard.

The turning point that led to new resilience

The turning point for the emergence of EDCs' new resilience was the 1997/98 Asian economic crisis, and the IMF-led socially devastating structural adjustment process that followed the crisis (indicatively see Chin, 2010; Bowles, 2002; Mendoza, 2010; Helleiner, 2014, pp. 31–34; Golub, 2013). This negative experience 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-insurance' strategy against the speculative nature of global finance (Chin, 2010; Mendoza, 2010; Kose and Prasad, 2010 ch.13; Didier *et al.*, 2012; Wise *et al.*, 2014). In this sense, the Asian financial crisis has been a significant geoeconomic moment for the large EDCs and the global economy⁵. 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 per cent for the period 1999-2006 (i.e. before the global economic crisis); while the primary budget surplus average for the period 1999-2014 was 3.1 per cent of GDP. Similarly, Brazil ran a primary budget surplus each and every year during the period 2001-2014, which on average was 2.9 per cent of its GDP. Furthermore, the EDCs' international reserves skyrocketed after the late 1990s. 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 the second quarter of 2014 (IMF online data, October 2016). It is indicative that on average, for all developing countries, international reserves increased as a percentage of external debt from 30 per cent in 2000 to 110 in 2008, and despite the economic crisis they kept increasing up to 2010 when they peaked at 120.5 per cent. Since then they have registered minor annual reductions remaining however above 111 per cent in 2013 (World Bank open data, October 2016; see also Mendoza, 2010; Julia Leung, 2014). Of course the strategies of primary surpluses and reserves accumulation have a very high economic and social cost (see Rodrik, 2006; Paineira, 2012). Yet, the buffers created through these policies by the EDCs acted as resilience multiplier at different levels. They neutralised currency attacks, attracted capital flows, improved economic ratings, and in general boosted the global markets' confidence in EDCs' economies.

Second, the strategy of reducing external exposure, by achieving a significant reduction in external debt. The EDCs' total external debt as a percentage of GDP was reduced on average from its Asian crisis peak of 39 per cent in 1999 to 28 per cent in 2013 (and in GNI terms from 39 in 1999 to 22 in 2014). 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 173 per cent in 1998 to a low of 72 per cent in 2008, raising again to 94 per cent in 2013 (World Bank open data, October 2016). 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 per cent in 2013 (World Bank, 2015, p. 14; see also World Bank, 2012).

Furthermore, from 1999 onwards, we see a rupture in the direction of global financial flows, with the EDCs starting to register surpluses and advanced economies deficits in their financial accounts. The EDCs' surpluses continued throughout the period 2000-2013, leading to a cumulative surplus amount of \$3.4 trillion (4.5 per cent of global GDP in 2013)⁶. Large EDCs have also been more proactive in the management of capital flows, by imposing capital controls, a policy that was supported by the IMF.

To get a better sense of what these changes in financial flows mean, and how they may affect the EDCs' resilience in the post 2008/09 crisis environment, we need to break down the financial account data into direct investments, portfolio investments, and 'other investments'. The picture that emerges from this break down is instructive. First, in terms of short term capital flows there was a US\$ 317 billion of portfolio type investments and \$419.1 billion of 'other investments' (which relate to bank deposits and loans) to the EDCs during the period 2000-2008 (World Bank open data, October 2016). Therefore, during this period, EDCs emerge as a critical 'asset class' in advanced economies' investment portfolios. At the same time, however, these portfolio-related flows for almost a decade, boosted EDCs' growth rates helping them to boost their resilience in the ways we discussed above. This trend was interrupted by the collapse of Lehman Brothers in 2008, which produced a global market panic and triggered abrupt capital outflows from the EDCs back to the core i.e. advanced economies. Yet

economic conditions there were worse, characterised by economic uncertainty and financial fragility, combined with low yields and low investment opportunities. Thus we saw yet another abrupt reversal of capital flows in favour of EDCs in the period 2010-2011. These violent fluctuations continued in 2012 (outwards), 2013 (inwards), and 2015 (outwards), summer 2016 (inwards), indicating that global capital markets look at EDCs as a credible investment alternative to the advanced economies (for differences in capital flows between BRIC, see Banerjee and Vashisht, 2010; Julia Leung, 2014). 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 2008/09 crisis, increased their ability to weather through the initial shock of these abrupt capital flow reversals (Berkmen *et al.*, 2012; Tsangarides, 2012; Didier *et al.*, 2012).

Second, the capital flows with regard to long-term direct investments (FDI) followed the opposite direction to that of short term flows in the period 2000-2013. The dominant picture here is that of outward flows from the EDCs. From the beginning of the 2000s, EDCs started the acquisition of assets abroad (including in the advanced economies) (Huotari and Hanemann, 2014, pp. 302–4). This trend was intensified during the first years of the crisis, with peaks in 2008 and 2011. During the period 2000-2008 EDCs' outward FDI flows reached US\$ 2.3 trillion, followed by 2.2 trillion during 2009-2013. 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 (2009, p. 55) 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 aim and are able to help EDCs to ease the impact of temporary capital outflows (SWFI, 2014; Halland *et al.*, 2014). Thus, the acquisition of foreign assets through direct (and in many cases portfolio) investments has added one more 'resilience layer' for large EDCs, helping them to temper adverse capital flows and policies initiated in advanced economies.

The EDCs' emergent resilience infrastructure

Despite the above developments (i.e. rebalancing of the global economy and new resilience), the main pillar of EDCs' traditional vulnerability/resilience nexus 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 UNCTAD (2009, p. 12) 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.

In 2014, on average, 67.7 per cent of the public and publicly guaranteed debt of developing countries was denominated in US dollars (from 60.8 in 2007). The respective regional figures were 70.2 in East Asia and the Pacific, 72.9 in South Asia, and 76.5 in Latin America and the Caribbean (World Bank, 2016). This demonstrates the direct impact that US monetary policy has 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

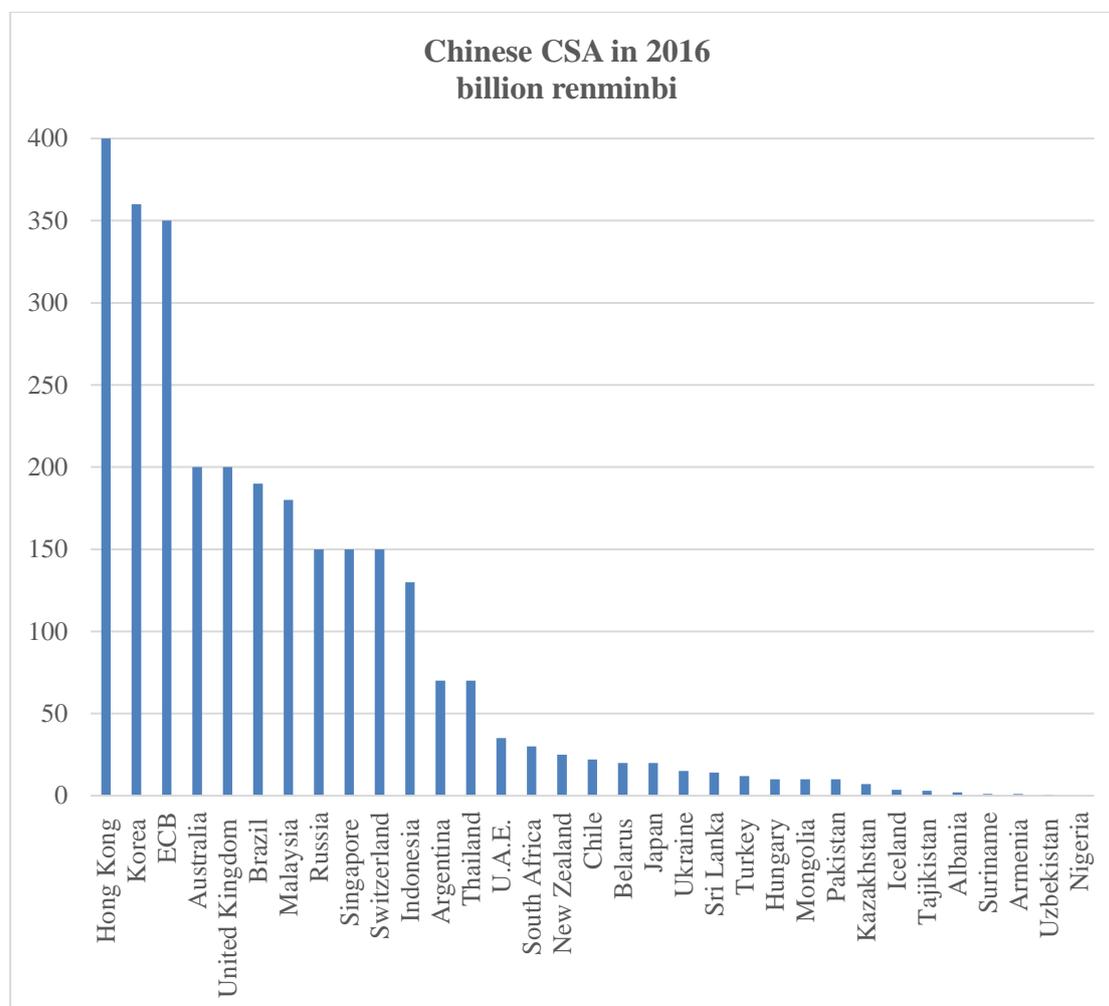
dollar, is indicative. Russia's public external debt denominated in dollars, was very low at US\$ 27.7 billion (overall public external debt was also low, at US\$ 64 billion). Yet, the private sector has a significant exposure to the US dollar. Russian banks were holding dollar denominated liabilities of US\$ 132.5 billion and the 'other private sector' was holding liabilities of US\$267.1 billion (Central Bank of Russia online data, February 2016). 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 (percentage) 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 per cent, from 54 in 2008 (BIS, 2015, pp. 3–4).

Yet, it would be a mistake to reduce our reading of the global economy and the EDCs' vulnerability/resilience nexus to the dominant role of the US dollar. Rather we should examine how the large EDCs deal with this traditional source of vulnerability and whether their current responses are able to generate broader changes. In this framework, the impact of 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 and external debt. In addition, these agreements facilitate the settlement of cross-border trade and investments in local currencies, thus offering an alternative to the use of US dollar.

At the centre of these new CSAs dynamics is China. As part of its strategy to internationalise the renminbi, China has by far the most extended network of bilateral currency swap agreements (Liao and McDowell, 2014; Destais, 2014). Since 2009 the People's Bank of China has negotiated 34 bilateral currency swap agreements, which at the end of 2015, together amounted to approximately 3.3 trillion renminbi (approx. 500 billion US\$) (People's Bank of China, 2016, p. 74). Most of these agreements have a 3-year duration and several have been extended with an increase in the original amount agreed (Table 4). Furthermore, in 2011 China allowed for a first time

designated banks to launch cross-currency swap operations for their private customers, and since then it has significantly expanded the number and limits of the participants.

TABLE 4



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

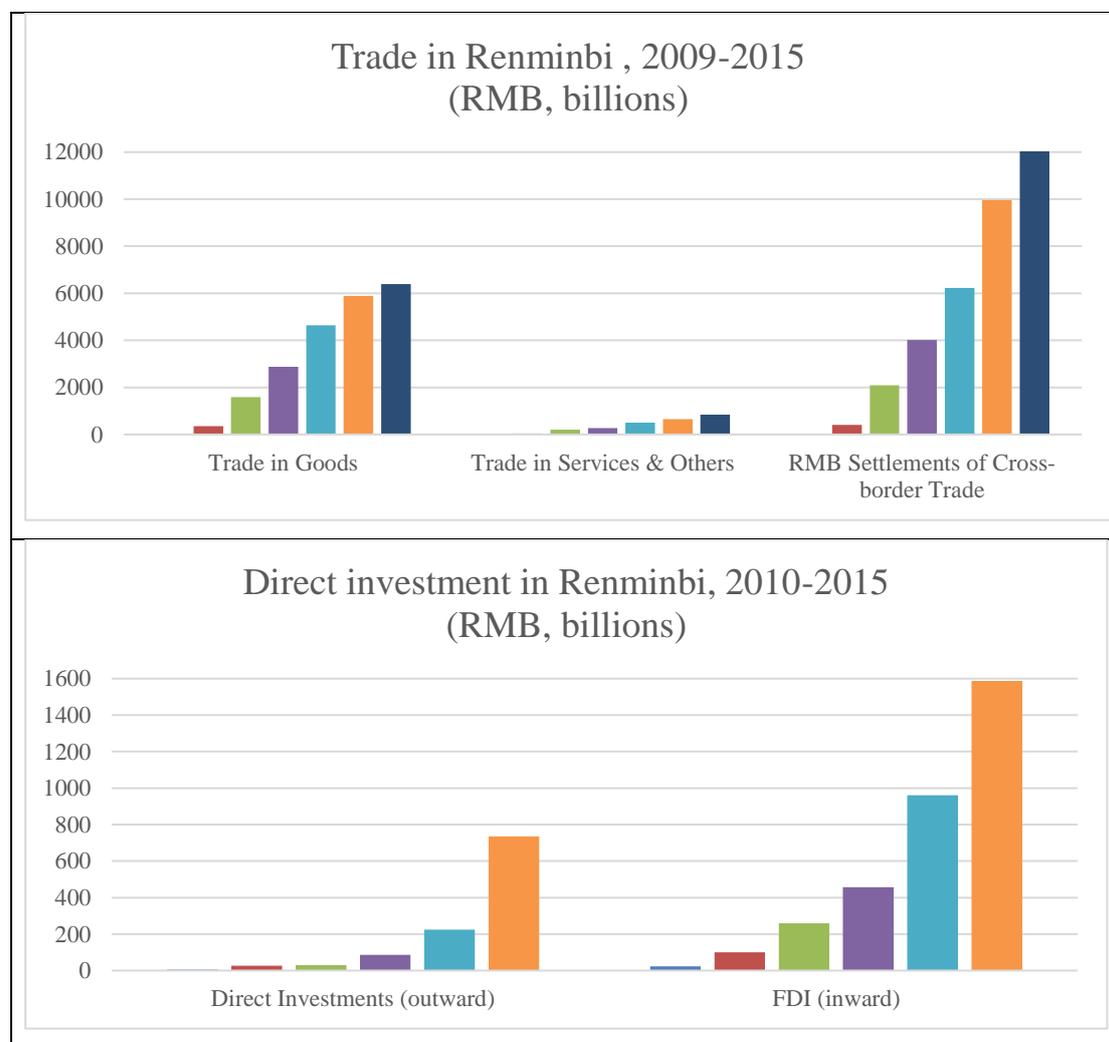
Note: the amount for the CSA with Nigeria has not been announced.

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), while in 2015 it reached 50 billion (People’s Bank of China, 2015; 2016). 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 5). The use of renminbi for settlements in ‘trade in goods’ increased from close-to-nothing in July 2009 to ¥6.39 trillion in 2015, accounting for approximately 20 percent of the total value of Chinese trade in goods (import and export), while in 2013 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 ¥8.4 trillion in 2015. Thus, in 2015 renminbi denominated total cross-border trade settlements reached ¥12.1 trillion (US\$ 1.8 trillion). Respectively, FDI-related settlements surpassed ¥2.3 trillion (US\$ 340 billion) in 2015, having more than doubled in comparison to the year before (author’s calculation based on data from People’s Bank of China, 2016). Thus, renminbi from place 20 in the ranking of global trade payment currencies in 2012, moved to place 5 in 2015. The same year it emerged as the second most used currency in trade finance (Li, 2015; People’s Bank of China, 2016; see also Deutsche Bank, 2014). This trend is enhanced by a number of new arrangements that aim at fostering the international availability and convertibility of renminbi⁷, including the shift towards a more market-based (but still managed) exchange rate regime (see for instance People’s Bank of China, 2015a), the direct trading of renminbi with an expanding list of currencies, the introduction of a new cross-border interbank payment system (People’s Bank of China, 2015b), 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, the expanding of renminbi clearing facilities in 20 countries, the Shanghai – Hong Kong Stock Connect, and 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). 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. The same year the UK was the first western government to issue renminbi denominated bonds, a move that was replicated by the World Bank in 2016. Furthermore, easing its interbank exchange rate policy, the People’s Bank of China 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 per cent band against average day rates against the US dollar.

TABLE 5



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)⁸ and with China in 2013 (US\$ 30 billion)⁹. 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)¹⁰. 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’ (Modi, 2015). 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 per cent 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 (Ramdas, 2013).

These bilateral CSAs can also be used by large EDCs 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. 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 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 (Cunningham, 2015). 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) (Pravda, 2015).

Of course, this new CSAs 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 and leverage, 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)¹¹. 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 (Rogers, 2014). Yet, in this process of strengthening Sino-Argentinian relations, Argentina's current account surplus with China became a deficit of US\$5 billion in 2014¹² (for Pakistan's case see Li, 2015).

Beyond however the bilateral level, there is also a wide range of new plurilateral CSAs among the EDCs (for a recent overview see Miyoshi and et al., 2013; see also Golub, 2013, pp. 1010–2; Huotari and Hanemann, 2014, pp. 305–6). For instance, in 2014 the BRICS established a US\$100 billion 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 (30 per cent of the

applicant's maximum quota) with IMF conditionality and co-funding —the so called 'IMF-link' clause. In this way, the 70 per cent 'IMF-linked portion' of the CRA should be understood as a BRICS driven and controlled extension of the existing funding instruments of IMF. Further plurilateral initiatives offering backline liquidity support and/or frontline development funding include the updated Chiang Mai Initiative Multilateralisation (2014, US\$240 billion) (Siregar and Chabchitichaidol, 2013), the Russia-led Anti-Crisis Fund (ACF) of the Eurasian Economic Community (2009, US\$ 8.5 billion), the BRICS-led 'New Development Bank' (2014, US\$100 billion) (Griffith-Jones, 2014; Abdenur and Folly, 2015), the 'China Silk Road Fund' (2014, US\$10 billion) (Ouyang, 2015) and the China-led, 'Asian Infrastructure Investment Bank' (2015, US\$100 billion).

The main point here 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. These arrangements 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 adverse economic conditions. 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.

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. 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. Focusing on how this resilience infrastructure develops and sets in motion de-dollarisation

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 emerging and advanced economies, any major crisis in the emerging powers will also 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 further US monetary tightening and the ongoing volatility in short term capital flows put at new stress the EDCs' new resilience. Although, an abrupt collapse of large 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, and the 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 (e.g. 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

geo-economic moment, creating a new rift in the global economy. This possibility, by its very existence, defines a new global geo-economic 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.

¹ The paper follows the IMF classification for ‘advanced economies’ (39 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.

² Kose and Prasad, 2010; Boorman *et al.*, 2010; Ammer *et al.*, 2011; Didier *et al.*, 2012; Wise *et al.*, 2014; IMF, 2014a.

³ For definitions of resilience see IMF, 2012, p. 129; Lino Briguglio *et al.*, 2008; Aida Caldera Sánchez, *et al.*, 2011; Didier *et al.*, 2012, p. 2; Lewis-Bynoe, 2014.

⁴ For the difference between PPP and current prices see UNCTAD, 2013, pp. 23–24; IMF, 2014b, p. 4.

⁵ For a definition of geoeconomics see Baru, 2012.

⁶ Author’s calculations using IMF data (Oct. 2016); the figure includes annual changes in reserves.

⁷ This policy is not without significant risks, especially with regard to domestic monetary and financial stability. See Eric Helleiner (2014, pp. 67–72).

⁸ See the official data from the Central Bank of Brazil at:

<http://www.bcb.gov.br/rex/sml/ingl/operation.asp>, accessed 19 October 2016.

⁹ Brazil was also part of the US Fed’s liquidity swaps programme. For the latter see, http://www.federalreserve.gov/monetarypolicy/bst_liquidityswaps.htm; see also Eric Helleiner (2014, pp. 34–40).

¹⁰ See the RBI press release at: https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=26475.

This policy built on previous RBI policy of credit lines for bilateral trade purposes.

¹¹ 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, 2014, p.3.

¹² See Buenos Aires Herald, 2014; Rogers, 2014; Wise and Zhang, 2014; Koop, 2015; Oviedo, 2015.

REFERENCES

- Abdenur, A. and Folly, M. (2015) 'The New Development Bank and the Institutionalization of the BRICS'. (*R*)evolutions, Vol. 3, No. 1, pp. 66–92.
- Ahuja, A. and Nabar, M. (2012) 'Investment-Led Growth in China: Global Spillovers'. Washington DC: IMF..
- Aida Caldera Sánchez, Morten Rasmussen and Oliver Röhn (2011) 'Economic Resilience: What Role for Policies?'. Paris: OECD.
- Ammer, J., Cai, F. and Scotti, C. (2011) 'Has International Financial Co-Movement Changed?'. In Batten, J. and Szilagyi, P. G. (eds) *The impact of the global financial crisis on emerging financial markets*. Bingley: Emerald.
- Antoniades, A. (2013) 'Recasting the Power Politics of Debt'. *Third World Quarterly*, Vol. 34, No. 2, pp. 214–232.
- Armijo, L. E. and Katada, S. (2015) 'Theorizing the Financial Statecraft of Emerging Powers'. *New Political Economy*, Vol. 20, No. 1, pp. 42–62.
- Arora, V. B. and Vamvakidis, A. (2011) 'China's Economic Growth: International Spillovers'. Washington DC: IMF.
- Banerjee, R. and Vashisht, P. (2010) 'The Financial Crisis: Impact on BRIC and Policy Response', MPRA Paper 38812.
- Baru, S. (2012) 'Geo-Economics and Strategy'. *Survival*, Vol. 54, No. 3, pp. 47–58.
- BCRA (2014) *Financial Stability Report*. Buenos Aires: Banco Central de la Republica Argentina.
- Berkmen, S. P., et al (2012) 'The Global Financial Crisis: Explaining Cross-Country Differences in the Output Impact'. *Journal of International Money and Finance*, Vol. 31, No. 1, pp. 42–59.
- BIS (2015) Quarterly Report, June. Geneva: BIS.
- Boorman, J., et al (2010) *The New Resilience of Emerging Market Countries*, Manila: Asian Development Bank.
- Bowles, P. (2002) 'Asia's Post-Crisis Regionalism'. *Review of International Political Economy*, Vol. 9, No. 2, pp. 244–270.
- Bracke, T., Bussière, M., Fidora, M. and Straub, R. (2008) 'A Framework for Assessing Global Imbalances', ECB Occasional Paper no 78, Frankfurt: ECB.
- Briguglio, L., et al (2008) *Economic Vulnerability and Resilience: Concepts and Measurements*, UNU-WIDER Research Paper no 2008/55.
- Buenos Aires Herald (2014) 'In Focus: The Currency Swap Deal with China', July 20.

-
- Chin, G. (2010) 'Remaking the Architecture'. *International Affairs*, Vol. 86, No. 3, pp. 693–715.
- Christian Buelens (2013) 'Decoupled and Resilient? The Changing Role of Emerging Market Economies in an Interconnected World'. *NBB Economic Review*, pp. 23–39.
- Cunningham (2015) *Russia and China's Growing Energy Relationship*, OilPrice.com, January 28.
- Destais, C. (2014) 'Central Bank Currency Swaps and the International Monetary System', CEPII Policy Brief no 2014-05, September, Paris: CEPII.
- Deutsche Bank (2014) *At the Centre of RMB Internationalisation: A Brief Guide to Offshore RMB*. Frankfurt: Deutsche Bank.
- Didier, T., Hevia, C. and Schmukler, S. L. (2012) 'How Resilient and Countercyclical Were Emerging Economies during the Global Financial Crisis?' *Journal of International Money and Finance*, Vol. 31, No. 8, pp. 2052–2077.
- EM (2015) 'More De-Dollarization: India And Russia On The Verge Of Currency Agreement', *EMerging Equity*, 3 March.
- Gallagher, K. (2014) *Ruling Capital*. Ithaca: Cornell University Press.
- Golub, P. S. (2013) 'From the New International Economic Order to the G20'. *Third World Quarterly*, Vol. 34, No. 6, pp. 1000–1015.
- Gray, K. and Murphy, C. (eds) (2013) *Rising Powers and the Future of Global Governance*. Abingdon: Routledge.
- Griffith-Jones, S. (2014) 'A Brics Development Bank: A Dream Coming True?', UNCTAD Discussion Papers no 215.
- Halland, H., Gelb, A. and Tordo, S. (2014) *Sovereign Wealth Funds Are Coming Home*, World Bank Institute.
- Helleiner, E. (2014) *The Status Quo Crisis*. Oxford: Oxford University Press.
- Helleiner, E., Pagliari, S. and Zimmermann, H. (eds) (2009) *Global Finance in Crisis: The Politics of International Regulatory Change*. New York: Routledge.
- Huotari, M. and Hanemann, T. (2014) 'Emerging Powers and Change in the Global Financial Order'. *Global Policy*, Vol. 5, No. 3, pp. 298–310.
- IMF (2014a) *World Economic Outlook*. Washington DC: IMF.
- IMF (2014b) 'An Uneven Global Recovery Continues', Washington DC: IMF.
- IMF (2012) 'Resilience in Emerging Market and Developing Economies: Will It Last?' In *World Economic Outlook*. Washington DC: IMF, pp. 129–171.

-
- Jara, A., Moreno, R. and Tovar, C. (2009) 'The Global Crisis and Latin America: Financial Impact and Policy Responses'. *BIS Quarterly Review*.
- Julia Leung (2014) 'Facing the Flood: How Asia Is Coping With Volatile Capital Flows', London: RIIA.
- Kim, S., Lee, J.-W. and Park, C.-Y. (2011) 'Emerging Asia: Decoupling or Recoupling'. *The World Economy*, Vol. 34, No. 1, pp. 23–53.
- Koop, F. (2015) 'Nothing to Hide in Bilateral Deals with China', *Buenos Aires Herald*, 21 March.
- Kose, A. and Prasad, E. (2010) *Emerging Markets: Resilience and Growth Amid Global Turmoil*. Washington DC: Brookings Institution Press.
- Levy Yeyati, E. and Williams, T. (2012) 'Emerging Economies in the 2000s: Real Decoupling and Financial Recoupling'. *Journal of International Money and Finance*, Vol. 31, No. 8, pp. 2102–2126.
- Lewis-Bynoe, D. (2014) *Building the Resilience of Small States: A Revised Framework*. London: Commonwealth Secretariat.
- Li, C. (2015) 'Banking on China through Currency Swap Agreements', Federal Reserve Bank of San Francisco, October 23.
- Liao, S. and McDowell, D. (2014) 'Redback Rising: China's Bilateral Swap Agreements and Renminbi Internationalization'. *International Studies Quarterly*, Vol. 59, No.3, pp. 401-422.
- Mendoza, R. U. (2010) 'Was the Asian Crisis a Wake-up Call?: Foreign Reserves as Self-Protection'. *Journal of Asian Economics*, Vol. 21, No. 1, pp. 1–19.
- Miyoshi, T. and et al. (2013) 'Regional Financing Arrangements' (Washington DC: IMF).
- Modi, N. (2015) *Media Statement during Visit to Sri Lanka*, Ministry of External Affairs, India.
- Moore, E. and Noble, J. (2014) 'UK Takes First Orders for Debut Renminbi Bond', *Financial Times*, October 14.
- Ouyang, E. (2015) *The Opportunities of China's 'One Belt One Road'*, Global Risk Insights, March 23.
- Oviedo, E. D. (2015) 'With Currency Swap, Argentina Becomes Dependent on China (interview)'. *World Politics Review*, 29 January.
- Painceira, J. P. (2012) 'Developing Countries in the Era of Financialization'. In Lapavitsas, C. (ed) *Financialisation in crisis*. Leiden ; Boston: Brill, pp. 185–215.
- People's Bank of China (2014, 2016) *Annual Report 2013*. Beijing.

-
- People's Bank of China (2015a) 'The PBC Spokesman Answered Press Questions on Improving Quotation of the RMB Central Parity', News Release, 11 August.
- People's Bank of China (2015b) 'Milestone of RMB Internalization: RMB Cross-Border Inter-Bank Payment System Starts Operation', News Release, 14 October.
- People's Bank of China (2015) 'China Monetary Policy Report Quarter Four, 2014', Beijing: Monetary Policy Analysis Group.
- Pravda (2015) *USA Concerned about Ruble-Yuan Currency Pair Trade at Moscow Stock Exchange*, English pravda.ru, March 18.
- Quah, D. (2011) 'The Global Economy's Shifting Centre of Gravity'. *Global Policy*, Vol. 2, No. 1, pp. 3–9.
- Ramdas, A. (2013) *India's Currency Swap Arrangements with 23 Countries*, *MoneyLife*, December 30.
- Rodrik, D. (2006) 'The Social Cost of Foreign Exchange Reserves'. *International Economic Journal*, Vol. 20, No. 3, pp. 253–266.
- Rogers, A. (2014) *China Currency Swap to Lift Argentina Reserves to over US\$30bn*, *BNamericas*. December 3.
- Siregar, R. and Chabchitichaidol, A. (2013) 'Enhancing the Effectiveness of CMIM and AMRO', ADBI Working Paper no 403, Asian Development Bank Institute.
- SWFI (2014) *More Direct Sovereign Wealth Money Pouring Into BRIC Countries*, Sovereign Wealth Fund Institute, June 5.
- Tass (2014) *Russia, India Will Expand Payments in National Currencies — Putin*, TASS, December 11.
- Tsangarides, C. G. (2012) 'Crisis and Recovery: Role of the Exchange Rate Regime in Emerging Market Economies'. *Journal of Macroeconomics*, Vol. 34, No. 2, pp. 470–488.
- UNCTAD (2009) *The Impact of the Financial and Economic Crisis on Debt Sustainability in Developing Countries*. New York: United Nations.
- UNCTAD (2013) *Trade and Development Report*. New York: UNCTAD.
- Wise, C., Armijo, L. E. and Katada, S. (eds) (2014) *Unexpected Outcomes: How Emerging Economies Survived the Global Financial Crisis*. Washington DC: Brookings Institution Press.
- Wise, C. and Zhang, Y. (2014) 'China and Latin America's Emerging Economies'. In *The Political Economy of China-Latin American Relations, ISA-FLACSO Conference*, Buenos Aires, Argentina.

World Bank (2012) 'Global Development Finance: External Debt of Developing Countries', Washington DC: The World Bank.

World Bank (2014-2016) 'International Debt Statistics', Washington DC: The World Bank.