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What is new in the new actors in global finance?

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Disclaimers

- New actors refers to:
 - BRICS: Brazil, Russia, India, China and South Africa
 - EMs refers to: next 20 largest developing economies.
- View is:
 - BRICS-EMs → Global financial crisis
 - Global financial crisis → BRICS-EMs
- View is not :
 - How LDCs are affected by the global crisis?
- Goal is to inform how BRICS-EMs will influence (or not) global financial reform.



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What is new in the new actors?

- BRICS + EMs = 1/3 global GDP (2007)
- Relevance to the global financial system:
 - Participating
 - Important participation
 - Central role in profit-making
- Growing role as global investors
 - reserves + SWFs + private flows



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Revising the process of financial linkage

- Debt bonds
- Bank loans
- Multilateral loans
- State to state loans

- Dependent on “shared ideas + common interests + trust among elites”



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SWFs: a picture or a movie?

- SWFs, mostly from China, the Gulf countries and East Asia
 - \$ 3.5 trillion plus change
- Most investment are domestic, only remains are international.
- Transparency is not much, so what?
- OECD-IMF views on SWFs
 - Until mid 2007, dangerous exceptions to the “rules”
 - By mid 2008, they were god-sent capital injectors
 - By early 2009, they are losing \$\$ big time, just like anyone else
 - Or are they going to be in a stronger position after all?



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History lessons for the SWFs?

- Previous incursions of other barbarians:
 - Japanese and German investment in the 1980s,
 - East Asian in the early 1990s,
 - BRICS in the early 2000s
- Did they change anything in the NYC-London financial axis?
 - Why? How come?
 - Does that tell us anything about BRICS-EMs interests?



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2007, the year of the pig

- De-coupling: BRICS-EMs would be relatively less affected by a US-born crisis given their:
 - Diversified trading patterns
 - Strong macroeconomic balances
 - Strength of domestic demand



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2008, the year of the rat

- Contagion: given the dependence of the BRICS-EMs on the US as an export market and on foreign financial flows:
 - South-bound financial flows will shrink
 - Domestic macroeconomic pro-cyclicality
 - South-South trade is North-South dependent



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2009, the year of the ox

- What contagion now?
- Common creditors: FFI withdraw to pay off Northern losses, now assured by nationalizations and government guarantees
- Macroeconomic similarity: “impressionist quality” of those surpluses
- Trade linkages: import dumping at home, unfair competition in third markets, a silver lining for GCCs...
- Bailout fallout: buy Mongolian!!! What loans are now government guaranteed? How is paid first?



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2010, the year of the tiger

But can de-coupling have the last laugh?

- More regionalism: Mercosur, ASEAN, ECOWAS
- But about the rest?
- How to avoid the IMF and other pests?
- Do a bailout using hard currency?
 - How will G-20 strategies interact with this?