How the 'T' time is affecting Emerging Markets

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It was the first time ever a Chinese President was going to address delegates at the World Economic Forum in Davos in January 2017. The lines before the Congress Hall were long and the security was tight. The world was watching and President Xi Jinping seized the opportunity to announce to the world that China was going to vigorously support global trade and investment just as the incoming Trump administration was giving signals to do the opposite. Two months earlier, he had been at the Asia-Pacific Economic Cooperation (APEC) meeting in Lima with 21 presidents where he reinforced China's commitment to free trade and to fill any void which the United States may leave.

After President Trump announced the US was abandoning the 12-nation Trans-Pacific partnership (TPP), Chile proposed a Summit with TPP members as well as China, which previously had been excluded from the trade agreement. China, with US$ 4 trillion in total trade is now the biggest trading country in the world and had seen the TPP as a way for the US to impose its trading power within its neighboring countries. Since 2010, China's loans to Latin America amounted to US$123 billion, equal to those of the Inter-American Development Bank (IADB), Latin American Development Bank (CAF) and World Bank together. The middle kingdom is the most important trade partner and investor in Brazil.

All these political changes are reinforcing others in the area of global governance and international cooperation, which show the growing influence of China, enhancing their ability to exercise soft power on a global scale. Already by the turn of the century, the creation of the G20 was a first recognition of the change taking place in the global economic and political landscape. Since then, with the BRICs summits, some of the most prominent among the emerging economies have been aiming to expand multilateral cooperation. Emerging Markets are pushing for their own multilateral institutions —such as the Bank of the South launched in South America in 2009, the New Development Bank (NDB) launched by the BRICS countries in 2014[i] and the Asian Infrastructure Investment Bank (AIIB) led by China in 2015—which illustrate their aspiration to play a greater role on the world stage through development finance and cooperation. In these institutions, the power structure is quite different from the one prevailing in post-WWII development organizations. For instance, China, followed by India and Russia, are the three largest contributors to the Asian Infrastructure Bank, which counts 57 members, including four G7 countries.[ii] The "One Belt, One Road" Initiative proposed by China, which is designed for economic cooperation and integration among countries around the original silk road and the 21st century maritime silk road, is another example of initiatives likely to expand China's role in global and regional affairs.[iii] The development of these new multilateral institutions and initiatives may also well contribute to enhancing the role of the renminbi in international trade and investment.

The quota and governance reforms that have been approved by the IMF in January 2016 also reflect the new dynamics of the global economy – including the role of emerging economies. It strengthens their representation in the IMF's governance structure. As a result, emerging economies such as Brazil, China, India, and Russia are now among the 10 largest shareholders of the IMF. The inclusion of the renminbi in the Special Drawing Rights (SDRs) currency basket – an exceptional development given that no new currency had been introduced in the basket since 1999[iv]– is also particularly noteworthy.[v] Replacing part of the shares accounted for by the Euro, the UK pound and the Japanese yen in the IMF currency basket, the renminbi is now the third largest currency in that basket, after the US dollar and the Euro. The reserve currency status of the renminbi may well lead to significant changes in the international financial system, especially if the new reserve currency is seen as an alternative to the dollar in some parts of the world. While the full impact of this move on the currency and the global financial system is yet to be fully assessed, it has provided China with a new international status.

Although in the short term it would seem that these changes in the US attitude towards globalization seem to have increased China's relevance in global trade and investments, it is too early to say whether this is a change of guard or a pause for the US while preparing the country to have a more decisive position in the world.

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[i] The agreement on the New Development Bank (NDB) was signed at the 6th BRICs Summit in Brazil in 2014. Its headquarters opened in Shanghai in March 2016.

[ii] The initiative on the Asian Infrastructure Bank was launched in 2014. The Agreement was signed in 2015 by the initial members, and joined by others later. The Bank opened in January 2016.

[iii] The One Belt, One Road initiative, launched in 2013, aims to foster integration and cooperation (by building infrastructure, developing cultural exchange, and increasing trade) among countries in Asia, Middle east and North Africa along two axes: the Silk Road Economic Belt (essentially the original silk road) and the 21st Century Maritime Silk Road.

[iv] The Reminbi will join the US$, the euro, the UK pound and the Japanese Yen. The euro was the latest currency to join the basket in 1999.

[v] The move "is an important milestone in the integration of the Chinese economy into the global financial system," IMF Managing Director Christine Lagarde said. IMF Press Release No. 15/540. November 30, 2015.