The Dollar, The Yuan and the Growing Monetary tensions in a Multipolar World

Oscar Ugarteche[1]

The global economic structure has undergone major changes over the past thirty years. This has not been reflected at the multilateral level in the Bretton Woods institutions who continue to operate as if nothing had changed. The response to this is the emergence of regional financial institutions that cover the space left by the inaction of the BWI. At the same time the use of the US dollar as an international currency continues to be the most significant yet China is pursuing an aggressive policy to place the reminbi RMB as a global currency. Slowly but surely this is gaining momentum yet the world economy stills responds to the FED's monetary stimulus, and increasingly bilateral central bank swaps place the FED as the new lender of last resort *vis à v*is de IMF. This places the debate on the role on the reminbi (RMB) and the US dollar in a new light. The paper will explore this process and, look into the tensions created by the inaction of the IMF in times of crisis and the new role of the FED while at the same time looking into the global role of the Peoples Bank of China from a global political economy analysis.

The change in the global economic structure and the PNAC ideal.

Over the past thirty years a major shift has occurred in the size and conditions of the leading economies. The idea of a unipolar world at the end of the Cold War seems to have shattered as China has become the largest world economy followed by the US and India and the biggest seven economies only include one European country:

[1] Senior researcher at the Instituto de Investigaciones Económicas UNAM, member of the National Research System of Mexico SNI/CONACYT. ugarteche@iiec.unam.mx

Germany. The new multipolar world emerges from its bipolar origins and gets transformed initially in 1975, when the G7 group of countries was formed in Paris, including the seven leading economies (by size) , the US, Great Britain, Germany, Japan, France, Italy and Canada. By leading economies we refer to those largest in absolute terms, with the highest per capita incomes and with the leading technologies that gave way to their substantial economic growth rates.

Over the past three decades those G7 countries are in a new position with only one European country remaining in the big league and the BRICS countries are now inside the list of seven largest economies. On the other hand, in terms of GDP per capita measured in PPP, the original G7 remain the richest economies, if we exclude from the list the first 14 economies that are basically financial and tax havens, bar Norway. This change in the world economic power structure and the emergence of multipolarity with it, has led to a crisis of multilateralism. As long as the US was the leader and had at the same time the largest economy, GDP per capita, the most developed technology accompanied by a high growth perspective, the *Pax Americana* settlement of World War II was credible and Washington based multilateral financial institutions were regarded as essential for the stability of the world system. (Ruggie, 2004). After the demise of that perception, with the US becoming the second largest economy after China; the 19th richest economy; in a high debt/low growth scenario and Europe fading away immersed in its economic problems and intestine power struggle, old fashioned multilateralism has ceased to be useful to the US who has turned into a bilateralist State, as can be seen in the implementation of US law in the fight against corruption[2], financial crimes and its many military interventions. The bilateralisation of US policy in the wake of weakened multilateralism, is a reflection of the power of the New American Century Project concept of "local solutions for global problems", as Bolton (2000) stated.

Today with a global context that involves private actors from TNCs and CSOs, it appears that firms are more powerful than nations, plus increasing bilateralism, they have ended up creating a new world scenario. In it China has a major role as the fastest growing and largest economy, low manufacturing costs, a massive new domestic market, the greatest amount of international reserves and biggest population and market. It holds three of thirty *systemically important financial institution.*; and its currency is increasingly used in international trade and is the largest world trader. The Agricultural Bank of China, The ICBC and The Bank of China are in the top seven list of banks in the world, together with Banco Bilbao Vizcaya, Standard and Chartered, Misuho and Sumitomo. In banking terms there is evidence not only of new actors but the Chinese weight of their relative size which refers to State owned banks and not private banks as the rest.

The **Project for a new American century** (PNAC 1998) brings together politicians related to the Heritage Foundation and American Enterprise Institute who reflect corporate interests. In an analysis differentiating "americanist" versus "globalist" interests, the PNAC is "americanist" and as such is centred on military might to recover US leadership and does not consider a renewal of multilateral institutions as

[2] The Racketeer Influenced and Corrupt Organizations Act allows for the extra territorial application of US law. "FIFA Case Could Strengthen Justice Dept.'s Global Power", NYT, June 1st, 2015 http://www.nytimes.com/2015/06/02/business/dealbook/fifa-case-could-strengthen-justice-depts-global-power.html?_r=0

useful. In their view Globalism weakens US leadership, and bilateralism is better. They hold a private self-regulating view on global public goods.

The emergence of new powers/contender states (Van der Pijl in Desai, 2013) can be seen in tables 1 and 2 where the new global actors are capitalisms with strong States, like China, India, Brazil and Russia with the relative shrinking of old States where firms have growing power and which has delved the existing multilateral system as out dated. The actions introduced by MNC and CSO modify what was previously known as an inter-national body because of their market approach. This is what turns the inter-national body obsolete while some bilateral agents have become stronger thus squeezing MNCs the space of CSOs. Thus the global political economy seems dominated by bilateralism privatised by MNCs from the represented country and supported by the PNAC politicians of Hayekian inspiration. The best example is the formation in June of 2010 of the UN Secretary General's Millennium Advocacy Group with CEOs of multinational firms as well as heads of State and some Civil Society related persons. This process of substituting the national interest for the corporate interest consists of transforming the national interest in the sum of the corporate interest plus some person's interests plus the national interest as such of a few countries. This has weakened the inter-national essence of multilateralism and strengthened the US corporate role.

Table 1. Classification of the 14 largest economies in the world By size of International Reserves and Imports measured in US$				
		International Reserves (Bns of USD)	Imports	Months Imports
1.	China	$ 3.980,000	$ 1.949,000	24,5
2.	Japón	$ 1.267,000	$ 812,000	18,7
3.	Rusia	$ 419,000	$ 324,000	15,5
4.	Brasil	$ 381,000	$ 242,000	18,9
5.	Corea del Sur	$ 365,000	$ 543,000	8,1
6.	India	$ 309,000	$ 508,000	7,3
7.	México	$ 200,000	$ 407,000	5,9
	Total 7	$ 6.921	$ 4.785	14,1
8.	Alemania	$ 198,000	$ 1.319,000	1,8
9.	Italia	$ 146,000	$ 448,000	3,9
10.	Estados Unidos	$ 145,000	$ 2.312,000	0,8
11.	Francia	$ 145,000	$ 634,000	2,7
12.	Indonesia	$ 103,000	$ 167,000	7,4
13.	Gran Bretaña	$ 87,000	$ 686,000	1,5
14.	Canadá	$ 72,000	$ 482,000	1,8
	Total 7	$ 896	$ 6.048	2,8

Table 2. Classification of the 14 largest economies in the world By size of GDP measured in PPP			
	GDP in PPP (Tns of USD)	GDP Per capita In PPP	Public debt/ PIB (%)
1. China	$ 17,630	12,900	22.4
2. Estados Unidos	$ 17,610	54,800	71.7
3. India	$ 7,280	5,800	51.3
4. Japón	$ 4,810	37,800	227.1
5. Alemania	$ 3,620	44,700	74.7
6. Rusia	$ 3,570	24,800	13.4
7. Brasil	$ 3,070	15,200	59.3
Total 7	**$ 57,590**	**28,000**	
8. Francia	$ 2,59	40,400	86.6
9. Indonesia	$ 2,55	10,200	13.2
10. Gran Bretaña	$ 2,44	37,700	95.5
11. México	$ 2,14	17,900	41.0
12. Italia	$ 2,07	34,500	134.1
13. Corea del Sur	$ 1,79	35,400	37.2
14. Canadá	$ 1,58	44,500	92.6
Total 7	**$ 15,150**	**31,500**	

Source: CIA Factbook.

Using Martin's (1992) game theory approach to IPE, from the Prisoners Dilemma theory, a player has fled jail and left all others players locked inside. The prison is then run by the interaction between the fleeing prisoner's interest and the example it has set to all others. The escape reinforces mutual vigilance between all players inside. In short, the US does not need to put more funds nor reform any international institutions. These will function better for the US through increasing other member resources, while enhancing US power free of charge.

The dimension of new global problems has outstretched existing institutions and is redefining the international set of rules and institutions. The existing multilateral ones are not changing but new ones are in process: G20, BRICS banks, UN multilateral debt arrangement proposal, regionalism, ICCC, etc. All of these use more funds from contender countries while the US retains the final say. The question is whether international public goods can have bilateral privatised governance or not? Donnelly (2000) states that the solution is military power in order to strengthen US. Governance through might. Otherwise the logical way out is global institutions for global problems which faces squarely American Exceptionalism and leadership.

Ambassador Bolton says “Should we, therefore, take global governance ‘seriously’? Sadly, the answer is "yes," not only today but far into the foreseeable future. It is far past the point when the unrestrained and uncritical acceptance of Globalist slogans ("global solutions for global problems") can be allowed to proceed. The costs to the United States -- reduced constitutional autonomy, impaired popular sovereignty, reduction of our international power, and limitations on our domestic and foreign policy options and solutions -- are far too great, and the current understanding of these costs far too limited to be acceptable.”(Bolton, 2000)

The result is that the G20 for example originally organized in 1999 as a grouping of Ministers of Finance and Central Bank Governors from 19 countries plus the EU Commission and ECB, but was transformed in 2008 by President Bush into a grouping of heads of State plus Business 20 for the discussion and coordination of policies towards regaining financial stability after the 2008 US financial crisis affected all major global markets. This new grouping is accompanied by the B20, reflecting the business community and particularly the financial community, the C20 expressing civil society, and the T20 of think tanks related to orthodox economic thinking, the L20 expressing Labour after the demise of strong trade union movements during the 1990s and Y20 of Youth persons. The controlling interests in the G20 are reflected in the B20 as it is made up of MNCs and Significant Financial Institutions SFIs, all larger than most countries in terms of GDP and market capitalisation. These have a major incidence on the G20 agenda.

The competition between capitalisms seems to be resolved by the imperialist control of the flows of capital, the currency used and the free trade logic and its institutions. This control reduces the entire global economy into one two tier dynamic between the US led economies and the China led economies. In this scenario Europe dissolves as a major actor and becomes a part of the US led economy. Global governance and the US are in a collision course, says Ruggie, because the global governance agenda is more crowded and diverse, and projects itself deeply into the sphere of the domestic policies of the State. This is Bolton's point. Global governance is right for the world and not for the US because it is exceptional. Or saying it in reverse, applying local US governance rules for the world is right for the US because it is exceptional.

Paraphrasing Kindelberger's comment of the 1930's crisis occurring because Great Britain was no longer able to exercise world leadership and the United States was not willing to do so; this time the US was not able to do it and China was not willing to assume its role. (Kindelberger, 1973 in Desai, 2013; 64) This left the group of 20 leading countries with a dilemma: use more of the weak economy's money to try and play along with the existing rules of the game to recover from the crisis, or attempt a major change. China was not willing to go the second route. Instead it appeared to be trying to position itself in the currency markets in an attempt for future hegemonic power. In the meantime, eight years after the Great Recession began (August 9, 2007), US growth rates have not recovered to the pre 2007 level, stagnation continues affecting Europe the most, and since 2014 Latin America, Africa and to a much lesser degree Eurasia.

Table 3. Comparison of the 14 largest economies in the World by political groupings and size:
International Reserves, GDP in PPP, Public debt ratio and IMF Votes

Groups of Countries	International Reserves	GDP in PPP	Public debt/ GDP* (%)	IMF Votes
Political Groupings	**(bns USD)**	**(tn USD)**		
A. G7	$2,206,950	$31,781	108.8	43.1%
B. BRICS+3	$5,156,400	$26,392	34.8	14.0%
A/B	67% less	20% larger	212%	309%
Groupings by Size				
C. New Largest 7 countries	$6,921,000	$57,590	74.3	39.1%
D. Next 7 countries	$896,000	$15,150	69.3	18.0%
C/D	772% more	381% larger	7%	217%

Source: tables 1 and 2 plus IMF, "IMF Members' Quotas and Voting Power, and IMF Board of Governors".

The old G7 group of countries established in 1975 countries holds 43% of the votes a the IMF/World Bank Group but represents a total GDP only 20% larger than the BRICS+3 countries who only hold 13.95% of the votes, including Mexico, South Korea and Indonesia. Countries with currencies defined as international reserves hold an average of 108.7% of total public debt on GDP and have a small growth perspective and very meagre international reserves, under three months imports, while BRICS+3 countries hold an average of 34.8% of GDP and have faster GDP growth perspectives. International reserves held by G7 countries are 43% smaller than those held by BRICS+3 countries. Finally all G7 countries all fit the category of *highly indebted rich* *countries* (HIRC) using the World Bank categories regarding both debt and income levels.[3] One major question is if the debt issued by a reserve currency country is equal to the debt issued by the rest. The answer is partly not because as Lima (2015) has pointed out, if the issues are sold in their own currencies then they will serve to recirculate income inside these economies as the buyers are inside them and they can issue their own monies. This might be true for the US, UK and Japan but is not true for Continental Europe as the Euro is issued and regulated by the ECB, and as we have seen in the Greek example. Conditions are placed to the smaller countries by the larger EU member countries. This is equal to smaller US dollar debt holding economies.

The institutional reaction, the G20 and the regional financial agenda

The reaction to the lack of institutional change while the existing limitations are made obvious to the emerging and developing nations is that proposals for new institutions have emerged. The analytical framework was the declinist view that the dollar era had terminated with the weakness of the US economy and its subsequent global political debilitation first started with the end of convertibility. It took two decades after the first theoretical step was taken in this direction by De Grauwe and three by Mundell's Optimum Currency Areas that the possibility was reconsidered not from the conservatives but from the left. The first set of them came from Latin America in the second half of the first decade of the XXI century. This was first launched by the President of Venezuela Hugo Chavez and backed by the President of Ecuador Rafael Correa. A progressive proposal launched first in 2005 and later in 2007

[3] Country and Lending Groups
http://data.worldbank.org/about/country-and-lending-groups

contained three seeds for new regional institutions. The point of the proposal was to recirculate savings inside South America at a time when it was apparent that the world economy was facing a massive downturn and international reserves were being sent from Latin America to the central banks of the developed countries to finance their consumption instead of keeping them inside South America. The political delimitation of South America was defined by UNASUR, a new regional political institution created in 2007 for the coordination of policies aside from US influence. The proposal included a development bank, Banco del Sur; a monetary stabilization fund, and a common unit of account. (Ortiz and Ugarteche, 2008). This proposal was followed by a Bolivarian Free Trade Area (ALBA in Spanish) regional bank (Banco del Alba), and unit of account (SUCRE). The South American initiative was debated for over eight years but has not materialised by 2015. The fear and reaction to this first regional financial institution idea came from the corner that it might antagonise the US, that it might be considered an anti-imperialist move, basically in the Pacific Alliance member Governments all tied through FTAs with the US. The opposite MERCOSUR was willing to move but the macroeconomic disparities made it unsustainable in spite of the will to use local currencies in their domestic trade and foster the new institutions. Brazil and Argentina agreed to use their currencies in their interregional trade as a first step. The result was that the Brazilians did not want to hold argentine pesos due to their high inflation rate.

The reaction to this first regional initiative was the enlargement of the seven members Corporación Andina de Fomento (CAF) and its conversion into a twenty two member Latin American Development Bank. More in an orthodox bent, this bank is owned by Latin American Governments and private banks and is less worried about political independence or economic development than about financial efficiency. It centres its activities on infrastructure. The Latin American Development Bank has subscribed capital of 10 bn. Dollars, paid in capital of 6.5 bn. US$, and guarantees for another 3.5 bn. US$.

The next set of regional financial institutions were created in Europe as the effects of the 2008 financial crisis hit all countries and affected their financial sector and fiscal deficits. It then became clear that there were no existing stabilization fund nor any financial emergency fund. Thus the European Union had a common currency (Euro), one development bank (European Investment Bank), one central bank (ECB) and general coordination of macroeconomic policies (Maastricht Treaty) but safeguard mechanisms were missing against neither currency speculation attacks nor financial crisis. Worse, the ECB by its constitutional ruling was unable to purchase Government Bonds and rescue economies under duress.

Several mechanisms had to be designed and put in place two years after the beginning of the 2008 crisis, in order to prevent a banking or currency collapse. Thus The European Commission had to improvise a European Financial Stabilization Mechanism (EFSM) on May 10, 2010, a European Financial Stability Facility (EFSF) for temporary crisis resolution mechanism in June 2010 and finally a permanent rescue mechanism, the European Stability Mechanism (ESM) which started its operations on 8 October 2012.4 The ESM replaced both the EFSM and the ESFS created in the rush of the critical needs of Portugal Ireland and Greece in 2010. According to a House of Commons Library Document “This will be financed by guarantees from Eurozone countries only, so it will not involve any liability for the

[4] http://www.efsf.europa.eu/about/index.htm

UK.” They are not funded with European taxpayer’s money, as Chancellor Merkel suggested during the Greek debt negotiations.5

Table 4 .Rate of Exchange US$/CNY	
01 abr 2015 - 30 jun 2015	60,901
01 ene 2015 - 31 mar 2015	61,358
01 oct 2014 - 31 dic 2014	61,356
01 jul 2014 - 30 sep 2014	61,576
01 abr 2014 - 30 jun 2014	61,635
01 ene 2014 - 31 mar 2014	61,156
01 oct 2013 - 31 dic 2013	61,232
01 jul 2013 - 30 sep 2013	61,613
01 abr 2013 - 30 jun 2013	62,025
01 ene 2013 - 31 mar 2013	62,769
01 oct 2012 - 31 dic 2012	62,880
01 jul 2012 - 30 sep 2012	63,200
01 abr 2012 - 30 jun 2012	63,078
01 ene 2012 - 31 mar 2012	62,976
01 oct 2011 - 31 dic 2011	63,535
01 jul 2011 - 30 sep 2011	64,034
01 abr 2011 - 30 jun 2011	64,924
01 ene 2011 - 31 mar 2011	65,713
01 oct 2010 - 31 dic 2010	66,484

Source: OANDA

The last set of regional financial institutions has emerged from Asia. First there the consolidation in 2012 of the Chiang Mai Initiative created in 2000 through the CMIM Swap agreement, which started with 120 bn. in 2000 and doubled to 240 bn. US dollars and their drawings require IMF approval initially up to 20% of its borrowing. This level was raised to 30% at the same time.

[5] http://researchbriefings.files.parliament.uk/documents/SN05973/SN05973.pdf

Table 5. People's Bank of China currency swaps						
	Countries	Signing Date	Swap Amount (RMB billion)	Trade volume (RMB billion)	RMB Clearing Center	RQFII
1	Belarus*	may-15	7	8.94		
2	Malaysia*	Apr 2015	180	652.66	√	
3	South Africa	Apr 2015	30	401.25		
4	Australia*	Apr 2015	200	839.84	√	√
5	Armenia	mar-15	1	1.19		
6	Suriname	mar-15	1	1.24		
7	Pakistan*	Dec 2014	10	87.46		
8	Thailand*	Dec 2014	70	438.29	√	
9	Kazakhstan*	Dec 2014	7	175.93		
10	Hong Kong*	nov-14	400	2,465.25	√	
11	Canada	nov-14	200	335.01	√	√
12	Qatar	nov-14	35	62.60	√	√
13	Russia	oct-14	150	549.15		
14	South Korea*	oct-14	360	1,687.19		
15	Sri Lanka	sep-14	10	22.27		
16	Mongolia*	Aug 2014	15	36.66		
17	Switzerland*	July 2014	150	367.42	√	√
18	Argentina*	July 2014	70	91.28		
19	New Zealand*	Apr 2014	25	76.20		
20	EU*	oct-13	350	N.A.		
21	Iceland*	sep-13	3.5	1.37		
22	Albania*	sep-13	2	3.44		
23	Hungary*	sep-13	10	51.72		
24	UK*	jun-13	200	430.79	√	
25	Brazil*	jun-13	190	554.90		
26	Singapore	mar-13	300	466.94	√	
27	Ukraine*	jun-12	15	68.43		
28	Turkey*	feb-12	10	136.79		
29	UAE*	Jan 2012	35	284.45		
30	Uzbekistan*	Apr 2011	0.7	28.00		
31	Indonesia*	mar-09	100	420.54		
Total		–	3,137.2	10,747.2	–	–

Taken from Center for Strategic and International Studies, CSIS CogitAsia, http://cogitasia.com/swap-agreements-chinas-rmb-currency-network/

*these refer to swaps agreed initially. The ones without the star were signed in a second moment.

RQFII is RMB Qualified Foreign Institutional Investor

Table 6. SWIFT World Currency Trade Positions				
Date	Place	% of World currency trades Reminbi	Place	% of World currency trades US$
January 2012	20	0.25	2	29.73
January 2013	13	0.67	2	33.48
January 2014	7	1.39	1	38.75
January 2015	5	2.06	1	43.41

Source: various editions of SWIFT Reminbi Tracker.

This Asean + 3 grouping includes China, South Korea and Japan Central Bank US$ Dollar swap agreements. This was followed by the launching in May 2013 of a Yuan clearing service by the Industrial & Commercial Bank of China (ICBC) in Singapore6, followed by another eight clearing agreements (see table 5) over the next two years that cover Europe, the Middle East, Asia and Australia.

The internationalization of the Reminbi started in 2008 and has continued firmly as the rate of exchange became stronger against the US$. The Reminbi appreciated against the US$ between January 2010 and July 2015 by 8.4% and has begun to adjust downwards in August, 2015 due to high exports costs.

Trade in Reminbi is growing permanently according to SWIFT (Society for Worldwide Interbank Financial Telecommunications SRL) Reminbi Tracker7 and its use has risen in world currency trades from the 20th place in January of 2012, up to 5th in November of 2014 and where it remains at the time of writing, after having overtaken the Australian, Canadian and Singapore Dollars plus the Swedish Krona in the top ten list. (See table 6) This might be explained by the relative stability of the Yuan Vis à Vis all other currencies that have depreciated against the US$ since at least March of 2014. At the same time, as the US dollar regained its strength with the end of the QE policies and the announcement of a future interest rate rise the dollar has become again the number one traded currency and expresses almost half of all currency transactions –43.41%–. This shows there is no weakness of US dollar trade while simultaneously the Yuan is being used more, yet still in very small proportions. The strength of both largest economies gives them the clout to grow their currency trader at the expense of the market shares of the rest.

[6] http://www.chinadailyasia.com/asiaweekly/2014-07/11/content_15148397.html
[7] http://www.swift.com/products_services/renminbi_reports

In the process of promoting the Yuan internationally and creating new regional institutions, Beijing launched the Asian Infrastructure Investment Bank on October, 2014 "envisaged to promote interconnectivity and economic integration in the region and cooperate with existing multilateral development banks."8 By June 29, 2015 it had fifty seven member countries that signed the Articles of Agreement. In contrast seven out of ten countries signed the AoA of the Bank of the South in Buenos Aires December 9, 2007, actively boycotted by Colombia and Peru and ignored by Chile. In contrast to Asia or Europe, regional financial institutions in South America where pointed out as being anti-imperialist and promoting the "Venezuelan model."9

The AIIB will have a capital of 50 billion US dollars, five times larger than the Banco del Sur initiative and has eight times more member countries. None have expressed the sort of antiimperialist doubts shown by Dr Herrera in his CELAM memo and reflected in the lack of support by PA member countries. The difference between the Banco del Sur and the AIIB is that one was designed to recirculate savings and international reserves inside South America while the other one was thought out as an antenna to receive resources from other parts of the world where better technology might be available. Both have in common weaning from the weak and poorly evaluated BWI or at least not relying on them in excess due to their conditionality and poor performance record. In both cases the new institutions are supplementary to the existing ones and do not preclude their regional operations.

[8] http://www.aiibank.org/html/aboutus/AIIB/

[9] Beethoven Herrera, Observatorio Pastoral, "Banco del Sur: ¿Riesgo U Oportunidad?", http://www.celam.org/observatorio_pas/docs/BANCO.pdf

"Pero no es improbable que si Venezuela ha comprado bonos de deuda a Argentina y Ecuador, y lleva así mismo el liderazgo del Banco del Sur, y del funcionamiento de esta última entidad, se adopten también criterios de identificación con las políticas contestatarias que impulsa el gobierno de Venezuela como condición para acceder a los recursos."

The last and most recent one is the New Development Bank ex BRICS Bank constituted in Fortaleza, Brazil July 15, 2014. This one substituted in South America the Bank of the South initiative, with Brazil changing sides from a South American position to a global leadership position. The New Development Bank (ex BRICS Bank) concept is taken from the Bank of the South concept, with each member country having one vote. It will operate in US$ and refers in that currency to its capital base and future operations. Its five member countries are Brazil, Russia, India, China and South Africa. This one is in effect constructed as an alternative to BWI, where any UN member country can subscribe to it, and has total subscribed capital of 50 bn US$ that may be doubled. In this sense the NDB is not a risk for the US$ as such but it is for the role of the US$ in the world economy to the extent it operates through BWI. It questions the modus operandi of BWI and the foreign policy tool aspect of those institutions. What remains to be seen is the paid in capital of all these banks. The World Bank has subscribed capital of 252.8 billion dollars with only 15.2 billion dollars of paid in capital.10 The evidence shows that the amount of paid in capital does not reflect the real influence of the institutions nor its capacity to coerce policies.

Currency Swaps and the role of the FED and the IMF in times of crisis

Central bank Currency Swaps (CBCS) are new instruments according to Destais (2015) and emerged during the first decade of the 21st century to handle commercial banks' foreign liquidity risk. The US Federal Reserve refers to them as a "central bank liquidity swap" while the People's Bank of China calls them "central

[10] http://treasury.worldbank.org/cmd/htm/financial_shareholder.html

bank local currency swap". CBCS were introduced by the US FED in late 2007 as the crisis loomed. In its webpage, the FED declares:

> Because bank funding markets are global and have at times broken down, disrupting the provision of credit to households and businesses in the United States and other countries, the Federal Reserve has entered into agreements to establish central bank liquidity swap lines with a number of foreign central banks. Two types of swap lines were established: dollar liquidity lines and foreign-currency liquidity lines. The swap lines are designed to improve liquidity conditions in dollar funding markets in the United States and abroad by providing foreign central banks with the capacity to deliver U.S. dollar funding to institutions in their jurisdictions during times of market stress. (Board of Governors of Federal Reserve System, Credit and Liquidity Programs and the Balance Sheet)[11]

The list of countries taken for swap agreements were the 1) Reserve Bank of Australia, 2) the Bank of Canada, 3) the Reserve Bank of New Zealand, 4) the Bank of England, 5) the European Central Bank, 6) Denmark's Nationalbank, 7) Norges Bank, 8) Sveriges Riksbank, 9) the Swiss National Bank, 10) the Bank of Japan, 11) the Bank of Korea, 12) the Banco Central do Brazil, 13) the Banco de Mexico, and 14) the Monetary Authority of Singapore. After October 31, 2013 six CBCS were made permanent 1) The Bank of Canada, 2) the Bank of England, 3) the Bank of Japan, 4) the European Central Bank, 5) the Federal Reserve, and 6) the Swiss National Bank.

China between 2008 and 2010 came forward and provided assistance to South Korea, Malaysia, Singapore, Hong Kong, Belarus, Argentina, Indonesia and Iceland in large amounts of CBCS while the IMF was not sought nor the US FED. China broadened its CBCS to more countries after 2011 when it became apparent that without this mechanism the possibility of expanding the use of the reminbi was limited.

[11] http://www.federalreserve.gov/monetarypolicy/bst_liquidityswaps.htm

Evidence shows that the US FED considered swaps with the four emerging nations: the Bank of Korea, the Banco Central do Brazil, the Banco de Mexico, and the Monetary Authority of Singapore after "Both the State Department and the Treasury were consulted about which countries fit the criterion laid out by the Fed, which was that "intensification of stresses in [these countries] could trigger unwelcome spillovers for both the U.S. economy and the international economy more generally." (Council on Foreign Relations, 2015) Later the IMF's Flexible Credit Line (FCL) was designed to play the same role for emerging nations yet only Mexico, Colombia and Poland have access to it thus far. (IMF, 2015) It must be pointed out that FED and PBoC swaps do not require IMF conditionality while CMIM or ESM swaps do and the FCL begins with strong conditionality performance.

The People's Bank of China began its currency swap agreements as part of the internationalization of the Reminbi during 2008. The first swaps were with South Korea, Malaysia and Singapore at the beginning of the crisis. The ones with the Bank of England and the European Central Bank were made much later in order to secure the reminbi market in London, and secondly to expand the reminbi market into Continental Europe and Switzerland in 2013-2014. China has signed 31 swap agreement programmes including Argentina and Brazil in Latin America between 2008 and 2015.

The expansion of the FED into CBCS and the introduction of the PBoC into CBCS in late 2007 up to 2009 was a reaction to the bank liquidity problem created by the credit crunch due to the loss of confidence generated by the US banking crisis. This should have been dealt with by the IMF but it was not in spite of the announcements made in London at the March G20 meeting. The IMF created the FCL as an alternative for emerging countries but it faces the problem that it does not have clients. It appears to be an easy to use instrument that should have generated a demand from countries that are following IMF policies meticulously but evidence shows that only three countries have agreed to use it perhaps due to the market stigma of recurring to IMF funds in critical moments. The end result is that for quick liquidity injections there exist the FED for G7 countries and the PBoC for some 31 emerging countries plus some G7.

Conclusions

Bretton Woods Institutions continue to operate on a voting system designed in the 1940's which does not reflect the major changes in the global economic power structure in terms of GDP and total trade. The new global economic power structure is not reflected in any major change in the voting weights in the BWI. The result is a weakness of multilateralism.

The response to this lack of change in the financial ground is the emergence of regional financial institutions that cover the space left by the inaction of the BWI.

The changes in the global economic structure do not affect the use of the US dollar but of minor currencies from smaller mature economies. The use of the US dollar as an international currency continues to be most significant and growing while China is pursuing an aggressive policy to place the reminbi RMB as a reserve currency.

The surge in regional financial institutions since the turn of the XXI century and especially after the 2008 crisis, should have provided for more regional independence from the hegemonic power. Yet, evidence shows that it is not the case and that regional institutions in Europe and Asia are strongly tied to BWI, as the Greek case has put in evidence.

The weakness of BWI and the IMF in particular in terms of condition free fast delivery of resources has led to the creation of Central Bank Currency Swaps that are divided into two groups between the US FED and the People's Bank of China. The US FED in 2008 assisted four emerging nations. Later it has specialised in mature economies and left the emerging nations to the PBoC. In both cases it means increasingly central banks bilaterally replace the IMF as new lenders of last resort for some countries.

In May of 2013 The Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank announced they would keep their bilateral swap agreements in place amongst themselves. This might be a first step towards a multilateral support fund *à la* CMIM.

The world economy stills responds to the FED and its monetary policies. The global consequences of US monetary policy are still determinant to the global growth dynamics.

The tension created between the US dollar and the Reminbi by the increasing role of the Reminbi in the international arena seems out of focus. The tiny weight of the Reminbi in the world currency market indicates China's huge trade presence is not reflected financially. Gramsci's concept of Hegemonic power expresses itself not only in trade presence but in diplomatic, political, cultural and financial power. In this sense, the Chinese economic expansion is far yet from becoming a threat to the US$ in this sense. The size of the Rmb currency market is still very small. What is new is that the US depends on China as a financial power to finance its massive external and fiscal deficits. It is this tension and not the size of its presence in the international currency market that creates the possibility for global change.

Bibliography

Bolton, John R. (2000) "Should We Take Global Governance Seriously?" Chicago Journal of International Law: Vol. 1: No. 2, Article 2. http://chicagounbound.uchicago.edu/cjil/vol1/iss2/2

Council on Foreign Relations (2015) The Spread of Central Bank Currency Swaps since the Financial Crisis. http://www.cfr.org/international-finance/central-bank-currency-swaps-since-financial-crisis/p36419#!/

Desai, Radhika (2013) Geopolitical Economy, Pluto Press, 313pp.

Destais, Christophe (2014) Central Bank Currency Swaps and the International Monetary System, CEPII – Policy Brief No 5, Paris

Donnelly, Thomas, (2000) Rebuilding America's defenses: Strategy, forces and resources for a new century, Project for the New American Century, 76pp.

Deutsche Bank (2014) Harnessing the RMB opportunity: A brief guide to China's global currency, 32pp.

IMF (2015), The IMF's Flexible Credit Line (FCL), Factsheet, https://www.imf.org/external/np/exr/facts/fcl.htm

Lima, Gerson P. (2015), Public Debt Is Economic Nonsense, World Economics Association (WEA) Conferences, No. 1 2015, Ideas towards a new international financial architecture?, 15th May – 20th July, 2015

Martin, Lisa L. (1992). Interests, power, and multilateralism. International Organization, 46, pp 765-792.

Ortiz, Isabel and Ugarteche, Oscar, Bank of the South: Progress and Challenges (November 15, 2008). Available at SSRN: http://ssrn.com/abstract=1353450 or http://dx.doi.org/10.2139/ssrn.1353450

Standard & Chartered (2013) Corporate Treasurers Council Guide to the Internationalization of the Rmb: A Treasury Perspective; Association for Financial Professionals.

Ravenhill, John (2013) Global Political Economy, Fourth Edition, OUP, 496 pp.