

EAGLEs Flash



The BRICS summit confirms China leadership within a very heterogeneous group

Even if yesterday's BRICS summit was held in New Delhi, China showed again how much it is leading the group with its proposals. There were two new important initiatives for cooperation among BRICS, namely (i) the creation of a common development bank; and (ii) the possibility of settling their bilateral trade in BRICS currencies (and not in USD). Here are our key takeaways from these initiatives.

With the proposal to create a South-South development bank, China could move a step forward formalizing its role as the most important lender to the emerging world

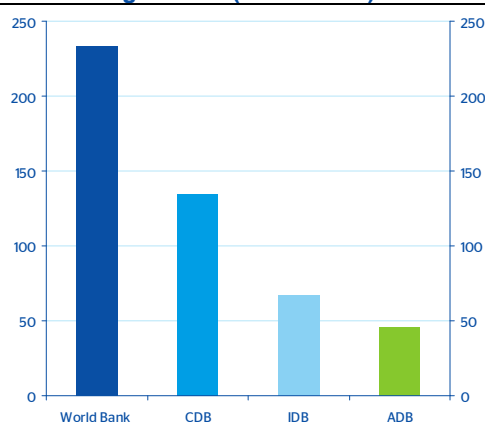
As regards, the creation of a development bank, we know that China is the only country within EAGLEs that has a net positive external position (evidence can be found in the economic watch: [China is the only global creditor within BBVA EAGLEs](#)); in fact, it is the second largest creditor in the world. This implies that China should bear the largest part of the cost if such development bank were to be created. This, however, might actually be something that China desires. In fact, China has stepped up its lending to EM economies as a way to enhance its influence¹ but also to create new demand for its products and services (in particular construction). Such development bank could be another venue for Chinese companies to export products and services abroad (similar to what European and American companies have been doing following the World Bank and other multilaterals before).

Trade flows are the milestone for the RMB internationalization process

Regarding trade flows, it can be a good opportunity for China to continue promoting the internationalization of RMB (the recent RMB swaps with Australia and Turkey show how committed China is to this). The trade flows among the BRICS countries reached 210 billion dollars in 2010. China was responsible for half of the figure, Brazil 19%, Russia and India each almost 13%, and South Africa 6%. In this way if they agree to use local currencies for the trade flows, it would be a trade flow of 105 billion dollars for the case of China. On the other hand, China can start promoting swap agreements with other Central Banks in these countries as part of its strategy for internationalization of the Chinese Redback. It is important to indicate that the trade flows of China with the BRICS in 2010 are equivalent to 7% of its total exports. In the case of Brazil, it was 20%, India and Russia 7% each, and 17% in the case of South Africa.

Chart 1

Loans outstanding in 2010 (billion USD)



Source: Annual Reports of WB, CDB, IDB and ADB

Table 1

PBoC bilateral currency swap agreements

Central Bank	Total Size bn RMB	Effective Date	Expiration Date
Korea	180	Dec-08	Dec-11
renewed	360	Oct-11	Oct-14
Hong Kong	200	Jan-09	Jan-12
renewed	400	Nov-11	Nov-14
Malaysia	80	Feb-09	Feb-12
renewed	180	Feb-12	Feb-15
Belarus	20	Mar-09	Mar-12
Indonesia	100	Mar-09	Mar-12
Argentina	70	Mar-09	Mar-12
Iceland	3.5	Jun-10	Jun-13
Singapore	150	Jul-10	Jul-13
New Zealand	25	Apr-11	Apr-14
Uzbekistan	0.7	Apr-11	Apr-14
Mongolia	5	May-11	May-14
Supplemental Agreement	10	Mar-12	May-14
Kazakhstan	7	Jun-11	Jun-14
Thailand	70	Dec-11	Dec-14
Pakistan	10	Dec-11	Dec-14
UAE	35	Jan-12	Jan-15
Turkey	10	Feb-12	Feb-15
Australia	200	Mar-12	Mar-15

Source: People's Bank of China

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¹ In 2010 China became the largest lender in Latin America, surpassing the combined standing credits from WB, IADB and Export Import Bank of the US to the region. See more on Inter-American Dialogue "The new banks in town: Chinese Finance in Latin America".

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