

# Large emerging markets and EMU: Impact of the crisis

Contribution to the conference „The  
International Effects of EMU and the  
Sovereign Debt Crisis“, Brugge

# Overview

1. Point of departure: a stylized model of large emerging market capitalism
2. Extrapolation: large emerging market requirements regarding EMU
3. Hypotheses: the likely impact of the Eurozone crisis and of recent ECB actions
4. Empirics: Global Euro usage
5. Conclusion: Eurozone crisis and ECB actions as major problems for large emerging markets
6. Further reading

# 1. Point of departure: a stylized model of large emerging market capitalism

Catch-up industrialization requires

- Long-term economic stability – absence of short-term fluctuations
- Accumulation of foreign currency reserves as buffer in crises
- Easy access to export markets
- Competitive prices for exports – low appreciation of emerging market (EM) currency
- National control – absence of foreign interference (as during Asian crisis)

## 2. Extrapolation: large emerging market requirements regarding EMU

- Stability of the global economic system (absence of crises and currency fluctuations)
- Diversification of foreign currency reserves
- Easy access to EU markets because of common currency
- Stable and high valuation of the Euro
- Support for multilateral management of world economy (weakening of US unipolarity)

### 3. Hypotheses: the likely impact of the Eurozone crisis and recent ECB actions

- Unresolved Eurozone crisis and ECB QE threaten stability of global economy (e.g. recession, speculative financial flows)
- ECB QE lowers the value of EM Euro-denominated currency reserves
- Eurozone crisis reduces EU export market
- ECB QE weakens Euro and may lead to currency war (competitive devaluation)
- Eurozone/ECB actions not based on global policy coordination – do not take EM requirements into account

# 4. Empirics: Global Euro usage

- Share of Euro-denominated debt securities from 33.8% in 2005 to 25.5% in 2012
- Share of Euro in foreign exchange markets from 39.1% in 2010 to 33.4% in 2013
- Share of Euro in IMF-Currency Composition of Official Foreign Exchange Reserves from 25.9% in 2010 to 23.8% in 2013 (NB: data incomplete)

Source: Otero-Iglesias 2014: 40-42

- Share of Euro as currency for trade settlement and invoicing (SWIFT data) down from 40.17% Jan 2013 to 28.30% in Dec 2014, RMB rising (FAZ 29 Jan 2015)

# 5. Conclusion

- Introduction of Euro has positive potential from emerging market perspective
- Ongoing Eurozone crisis and recent ECB actions highly problematic for emerging markets
- Euro has been weakened in its role as global lead currency

# 6. Further reading

- European Central Bank, The International Role of the Euro, ECB: Frankfurt 2014
- Miguel Otero-Iglesias, The Euro, The Dollar and the Global Financial Crisis: Currency Challenges seen from Emerging Markets, Routledge: London and New York 2014
- Andreas Nölke et al., Domestic Structures, Foreign Economic Policies and Global Economic Order: Implications from the Rise of Large Emerging Economies, in: [European Journal of International Relations](#) advance online 25 November 2014
- Mattias Vermeiren, Power and Imbalances in the Global Monetary System: A Comparative Capitalism Perspective, Palgrave: Houndmills 2014