

Risk and Response of Emerging Markets in the Context of Fed Interest Rate Hikes

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I. The performance and mechanism of financial turmoil in emerging markets under the background of the Fed rate hike

(i) The performance and mechanism of financial turmoil in emerging markets

- ◆ The exchange rate of emerging markets has fallen sharply and even collapsed.
- ◆ Emerging market stock and bond markets suffered varying degrees of impact
- ◆ Cross-border capital acceleration flows out of emerging markets
- ◆ The Government's response to the crisis is difficult to reverse.

(ii) The causes and logical mechanism of financial turmoil in emerging markets

1. The fuse is dominated by external factors

- ◆ fed interest rate hikes,
- ◆ trade wars,
- ◆ U.S. economic and financial sanctions.

(ii) The causes and logical mechanism of financial turmoil in emerging markets

2. The risk communication channels are mainly cross-border linkage

- ◆ cross-border capital outflow
- ◆ passive exchange rate devaluation
- ◆ monetary policy following austerity
- ◆ excessive external debt dependence
- ◆ low external storage coverage
- ◆ the existence of “double deficits”

(ii) The causes and logical mechanism of financial turmoil in emerging markets

3. The risk amplification channel mainly includes internal factors

- ◆ Domestic political instability
- ◆ A slow economic growth rate
- ◆ High inflation
- ◆ High corporate and household debt rate
- ◆ Expected deterioration

(iii) The typical cases of emerging market financial crises in the history

4. They have some similarities with this turmoil.

(1) the Fed's interest rate hike triggered the Latin American debt crisis

(2) the Fed's interest rate hike caused the Asian financial crisis to erupt

II. The response of emerging markets in the context of the Fed's interest rate hike

(i) Improving international economic and trade strategies

1. Actively adjust the trade structure

- ◆ Develop diversified markets
- ◆ Enhance resilience to trade wars
- ◆ Reduce reliance on single markets, especially the US market

(i) Improving international economic and trade strategies

2. Vigorously promote WTO reform.

- ◆ Reform global trade rules, reverse American unilateralism, oppose trade bullying and safeguard the multilateral trading system
- ◆ Accelerate the signing of RCEP, Central Europe bit and other agreements
- ◆ Speeding up the development of EWTP and
- ◆ speeding up the new rules of international trade in the digital age

(i) Improving international economic and trade strategies

3. Deepening emerging market cooperation.

- ◆ Improve the cooperation mechanism of emerging market countries
- ◆ expand the depth of cooperation
- ◆ expand the “BRICS +” regional cooperation
- ◆ establish a new Industrial Revolution partnership
- ◆ promote scientific and technological innovation and industrial internet cooperation
- ◆ tap into new growth
- ◆ support medium-sized enterprises development

(ii) Building a new international financial order

1. Promoting a new round of reform of the international monetary system.

- ◆ Promote the diversification of the international monetary system, weaken the supremacy of the dollar.
- ◆ Promote the reform of the IMF and international financial regulatory system.
- ◆ Strengthen the IMF's ability to respond to systemic risks globally.
- ◆ Expand the SDR function, expand the issuance of SDR bonds and give full play to the SDR role

(ii) Building a new international financial order

2. Improve the international financial infrastructure.

- ◆ Support the construction of payment and settlement system in Europe,
- ◆ improve the RMB global payment system
- ◆ promote a sound and responsible international financial infrastructure.

(ii) Building a new international financial order

3. Deepening regional monetary and financial cooperation.

- ◆ Deepen regional and sub-regional financial cooperation,
- ◆ expand the currency swap mechanism and use,
- ◆ promote the “Belt and Road” financial intermediation.
- ◆ improve the governance mechanisms of the BRICS countries’ new Development Bank and Asian Infrastructure Investment Bank (AIIB),
- ◆ and expand the BRICS foreign exchange reserves and their influence.

(ii) Building a new international financial order

4. Steadily promote RMB internationalization.

- ◆ enhance the cross-border settlement of RMB,
- ◆ increase the distribution of RMB products at domestic and overseas,
- ◆ adjust and optimize the structure of reserve assets,
- ◆ avoid excessive reliance on US dollar and US debt.

(iii) Joint efforts to reverse unilateral sanctions

1. Perfecting the counter-economic and trade sanctions toolkit.

2. Work together to mitigate the negative effects of sanctions.

(iv) Enhanced cross-border macro-prudential management

1. Strengthen the monitoring of cross-border capital flows.
2. Liberalize capital projects prudently and orderly.
3. Strengthen macro-prudential supervision.

(v) Strengthening international coordination of macroeconomic policies

1. Improve the international coordination mechanism for macroeconomic policies.

- ◆ Play the role of G20, BRICS summit, China-ASEAN summit, “Belt and Road” summit,
- ◆ improve the efficiency of negotiation,
- ◆ make a targeted system arrangement,
- ◆ reduce the negative spillover of macro policy.

(v) Strengthening international coordination of macroeconomic policies

2. Implement an international consensus assessment mechanism.

- ◆ Establish a professional international policy discussion platform,
- ◆ regularly assess international coordination of macro-policy,
- ◆ monitor important international macro-policy statements and the implementation of consensus and
- ◆ put forward suggestions and recommendations for improvement.

Thank you!