
8 Absolute or relative gains? How status quo and emerging powers conceptualize global finance*

Leslie Elliott Armijo and John Echeverri-Gent 

The global financial system is in the midst of a transition. While the global financial crisis has called into question the legitimacy of the institutions of global finance, a redistribution of financial resources is transforming the balance of power within the realm of international finance. From 1990 to 2012, the G7's share of global gross domestic product (GDP) (in current US dollars) declined from 65 to 47 percent, while the share of emerging market and developing economies has grown from 20 to 38 percent (IMF 2013b). From 1995 to 2012, the share of emerging market and developing countries in total foreign exchange holdings doubled from 33 to 66 percent (IMF 2013a). In the midst of these changes, increasingly powerful emerging market countries have banded together into groups such as the BRICS (Brazil, Russia, India, China, and South Africa) to increase their leverage over the process of change. These countries, along with the emerging economies of Argentina, Indonesia, Mexico, South Korea, Saudi Arabia, and Turkey, have gained a seat at the expanded G20 negotiating table.

The diversity of relevant perspectives has grown as the number of countries at the bargaining table has increased. The different positions are best understood by grouping them into three mental models or analytical perspectives that illuminate their understanding of current issues and shape their negotiating strategies in the current transition (cf. Roy et al. 2007). Economic liberalism is the modal analytical framework for conceptualizing the international economy in the government and business circles of the United States and other major wealthy democracies. Liberal institutionalism dominates the academic international political economy community in the global 'North.' Economic realism is the dominant cognitive framework among government and academic circles throughout the global 'South.'

Policymakers who conceptualize their tasks in terms of economic liberalism, a mental model with roots in classical, neoclassical, and neoliberal economics, assume that international economic relations are fundamentally market-driven, and they focus their analysis on price signals and efficiency considerations. Characterized by 'the belief that markets tend toward equilibrium and that the common interest is best served by allowing participants to pursue their self-interest' (Soros 2008), economic liberalism's modal adherents include professional economists, financial journalists, the national and transnational business communities, and investors in the advanced industrial economies – and most government officials in these same countries. Except during periods of unusual crisis, it is axiomatic that markets clear, providing efficient and thus socially optimal solutions to otherwise impossibly complex problems of production and distribution (Micklethwait and Woolridge 2000). While emphasizing the absolute gains provided by markets, economic liberals (ELs) are skeptical of the need for any central authority in world financial markets. Money is a commodity like any other; therefore, central planners cannot

improve on the efficient allocation that would be achieved by a myriad of decentralized supply and demand decisions (Friedman 1992; Brunner and Meltzer 1993; Dorn 1999). The role of states is thus to support commercial exchange by upholding the rule of law and the sanctity of contracts. The cognitive framework is congenial to the wealthy and prominent because it teaches that their success comes not from favoritism or skewed rules, but instead from merit in competition.

Liberal institutionalism posits a fundamental causal role for international governance regimes, including complexes of *de jure* and *de facto* regulations, institutions, and norms. This composite perspective synthesizes traditions that scholars might distinguish as classical political liberalism, neoliberal institutionalism, institutionalism, and even constructivism, all of which propose that underlying social institutions structure markets. The liberal institutionalist framework, like that of economic liberalism, assumes that international economic relations generally are positive sum, with voluntary participation. International institutions and governance regimes mitigate problems of information asymmetries and transaction costs, developing when national political leaders and/or influential technocrats within particular issue-arenas believe that such arrangements will lead to mutually beneficial absolute gains (Keohane 1984; Martin 1993; Roubini and Setser 2004; Kahler and Lake 2003). Transnational networks may unite private sector experts and governmental authorities (Slaughter 2004; Goldstein and Keohane 1993; Avant et al. 2010). Powerful states that initially sponsor and subsequently sustain international governmental institutions (IGOs) may achieve superior access in rule-making bodies, yet they also shoulder a disproportionate share of the costs of providing global public goods, chief of which are the mostly liberal institutions of global economic governance that have enabled dramatic global economic growth since the end of World War II. This mental model is second nature to many social scientists, and to some politicians. It particularly appeals to leaders and scholars in dominant countries, as it frames the gains from the status quo in global governance as mutual and roughly equitable.

Our third cognitive framework, economic realism, shares many assumptions with the realist and neorealist traditions in international relations (Morgenthau 1948; Waltz 1979; Mearsheimer 2001). Like classical realism, economic realism emphasizes relative gains and a positional view of actors. Unlike classic realism, state survival is not usually at stake, and non-state actors and international institutions may play a significant role. Economic realists contend that power – conceptualized in terms of the relative capabilities and influence among sovereign states – structures the development of the international economy. States and their surrogates, including powerful multinational firms and sometimes IGOs, cooperate to maintain the conditions of mostly free trade, but remain vigilant to score relative gains over rival states. In the economic realist perspective, global governance reflects and reproduces underlying asymmetries in states' control over power resources. Conflicts over relative gains are central to globalization. International financial resources in the hands of a country or its citizens become tools of foreign policy (Baldwin 1985; Chang 2002; Cohen 2003, 2012; Ferguson 2001; Gilpin 1987; Kirshner 1997; Steil and Litan 2006; Wade 2000, 2003). We also include many neo-Marxist scholars in this broad category. Whether scholars in the neo-Marxist tradition underscore the role of transnational social class or the world system, their empirical work typically highlights dominant core states, striving to maintain their power vis-à-vis others in the system (Robinson 2004). The influence of economic realism among developing-country

policymakers reached a peak in the 1970s and 1980s with their demand for a new international economic order (Cox 1979; Murphy 1984; Krasner 1985; Rothstein 1979). Though globalization in recent years has seen the diffusion of EL and liberal institutionalist (LI) ideas throughout the developing world, economic realism remains a powerful intellectual current, as is manifest in groupings such as the BRICS and cleavages within the financial G20. Economic realism is especially congenial to leaders of countries with poor economic performance or who are in the midst of a financial crisis, since they can plausibly assign blame to external actors or the global system while minimizing their own responsibility. It also motivates the strategies of rising powers who feel that international governance institutions do not adequately reflect their growing capabilities.

Mental models structure policy perceptions and preferences. When they observe global finance, economic liberals seek and find markets that maximize collective welfare as long as states do not interfere. Liberal institutionalists identify politically constructed international institutions that produce global public goods; and economic realists confirm their belief that global economic governance mirrors and perpetuates the underlying interstate balance of power. Understanding the distinctive insights of each perspective is valuable for two reasons. First, global market and international financial institutions in actual fact provide both absolute and relative gains. In other words, they generate global public goods (as ELs and LIs would have it), while also distributing benefits and costs that enhance the welfare of some countries more than others (as pointed out by economic realists) (see Krasner 1991; Stone 2011). Second, comprehending these perspectives is important because they create a mental terrain that shapes global negotiations and outcomes. Dominant powers such as the United States promote economic liberalism and liberal institutionalism as part of their strategies to maximize the extent to which challengers are invested in international institutions in order to enhance the challengers' satisfaction with the status quo and minimize the necessary redistribution of power. Meanwhile, emerging market countries desire to increase their relative gains from the workings of international finance while minimizing the disruption of the provision of absolute gains. For example, China aspires to greater influence within the financial or large economies' G20 and the International Monetary Fund (IMF), but does not wish to precipitate a crisis or breakdown of the global financial system.

This chapter demonstrates how the mental models illuminate three key issues in global finance and in so doing help us to understand the dynamics of the ongoing transition. The first three sections show how the three contrasting perspectives create divergent analyses and preferences in contemporary monetary and financial policy debates by profiling disagreements over capital account liberalization, the international role of the United States (US) dollar, and the lessons of the 2008–2009 international financial crisis. Table 8.1 outlines the essential features of the mental models and their disparate implications for these issues. Our concluding section deploys these mental models to illuminate the challenges to key actors presented by the changing world of global finance.

CAPITAL ACCOUNT LIBERALIZATION

Capital account liberalization (CAL) was urgently debated in the mid- to late 1990s. It means removing nationally imposed barriers to cross-border movements of capital.

Table 8.1 *Mental models of international finance*

	Economic liberalism	Liberal institutionalism	Economic realism
Organizing principle(s) of international economy	Free markets	Institutions Cooperation	State power
Modal adherents	US and European economists and business; many politicians	US and European social scientists; some politicians	Emerging economy policymakers
Issue: Capital account liberalization	Efficiency-enhancing Problems result from poor EE domestic policies	Learning and multilateral cooperation can resolve transitional problems	Systematic allocation of risks to EEs Undercuts EE catch-up policies and FX reserves buildup
Issue: Key currency role of US dollar	Dollar hegemony is market-driven	Fragile and constructed Likely a public good	‘Original sin’ versus immense benefits for US
Issue: Lessons of international financial crisis of 2008–2009	Problems with incentives Regulatory fallacy of composition	Need for cooperative global regulation Need to expand global governance clubs	Biased application of rules Good opportunity to promote global influence shift

The outward capital controls to be eliminated include barriers to flows of local savings abroad, as in strict limits on tourist spending, foreign bank accounts, or the foreign-currency denomination of locally managed assets (‘dollarization’). Liberalizing outward capital controls also includes easing taxes or quantity restrictions on foreign investors’ repatriated profits, interest, or dividends. Inward capital flows to be deregulated include foreign direct investment (FDI), bank loans, inward portfolio investment (in corporate shares, corporate debt, or government bonds), and liberalizing ‘trade’ in financial services (that is, opening to inward foreign direct investment in banking, insurance, and similar activities).

Financial globalization – an increasing share of financial contracts occurring across rather than within national borders – has accelerated dramatically in recent decades. For example, the ratio of daily foreign exchange trading to the daily value of merchandise exports ballooned from 12 to 90 in approximately two decades, from 1989 to 2010 (UNCTAD 2012, Chapter 1). Accompanying this expansion in international flows, most countries’ capital accounts became more open over time. Mean global capital account openness increased from about 35 on a 100-point scale in the 1970s to about 50 in the early 2000s. The faster-growing developing and post-socialist economies termed emerging economies (EEs) fell near the mean in both time periods, with advanced industrial countries more financially linked than the mean, and the poorest countries less so (Chinn and Ito 2008, 18).

Economic liberals’ support for open capital markets turns on their presumed economic

efficiency. Unified, as contrasted to segmented, markets should maximize price and quality competition (Wolf 2005). CAL benefits savers, who are freed to seek the best returns on their investments. Institutional investors aggregate the funds of many small savers, seeking the best returns worldwide. Moreover, open capital markets also should help relatively underdeveloped countries to industrialize, because their economies are presumed to be labor-rich and capital-scarce. In the words of Stanley Fischer, then Deputy Managing Director of the IMF:

[F]ree capital movements facilitate an efficient global allocation of savings and help channel resources into their most productive uses, thus increasing economic growth and welfare. From the individual country's perspective, the benefits take the form of increases in the pool of investible funds and in the access of domestic residents to foreign capital markets . . . Residents and governments are able to borrow and lend on more favorable terms, and domestic financial markets become more efficient . . . As a result, income and living standards are likely to rise more rapidly and be more sustainable (Fischer 1998: 3)

According to Stolper–Samuelson theory (Stolper and Samuelson 1941), international capital flows should create jobs in labor-abundant developing countries through investment in labor-intensive industries. These investments should benefit the unemployed and poor more than any other group, consequently reducing income disparities. In the name of these presumed benefits, the advanced industrial countries controlling the majority of votes at the IMF planned to amend the Fund's Articles of Agreement to make open capital accounts obligatory at the World Bank/IMF annual meeting in late 1998 (Armijo 2002; Abdelal 2007).

The empirical problem for the EL prescriptions was that in many developing countries in the 1990s rapid CAL appeared to be associated with financial crises. Nonetheless, the analysis most consistent with the EL mental model was that investors were reacting to objective market signals. In other words, developing countries experiencing crises had called the wrath of the markets down upon themselves through unsustainable national macroeconomic and regulatory policies. Following this logic, the IMF conditioned its emergency loans on recipient governments implementing neoliberal economic reforms, described as increasing space for market signals in the economy. In practice, these rescue packages included policies, such as public spending cuts and ending price controls, that produced austerity in the short to medium term and were acutely procyclical when implemented during crises. Subsequent to the many emerging market crises of the 1990s, the dominant analysis among economic liberals evolved. Open capital accounts were associated with financial crises in countries without strong financial institutions. Therefore Kose et al. (2006) concluded that CAL is most beneficial after a country's domestic financial sector has reached a minimum developmental threshold. A recent meta-study of the literature by former IMF economists concluded that the international community should not seek to promote totally free trade in assets, because 'free capital mobility seems to have little benefit in terms of long-run growth and because there is a good case to be made for prudential and non-distortive capital controls' (Jeanne et al. 2012, 5). In response to these evolving views, the IMF officially revised its position on December 3, 2012. It acknowledged that capital account controls can have a beneficial impact under certain conditions; however, it retained the long-term goal of full capital account liberalization.

The attitudes of liberal institutionalists (LIs) toward capital account liberalization

were always more nuanced. Most importantly, liberal institutionalists emphasize that all financial markets are structured by institutions, one of whose jobs it is to alleviate the impact of market failures and promote agreements and norms facilitating economic coordination and regulation. LIs do not expect either markets or regulations to be perfect. Consequently, institutionalists perceive multilateral and transnational organizations such as the IMF, the Bank for International settlements (BIS), its Basle banking committees, the Financial Stability Forum (now Board), and the network of international public-private trade associations and self-regulatory bodies for the financial sector as essential to the operation of global finance. The proposition that CAL might need to be gradual, sequenced, or otherwise regulated and tempered is intuitively consistent with an LI mindset. Moreover, many liberal institutionalists recognize and value the historical precedent for at least temporary limits on cross-border capital movements. A key feature of the post-war Bretton Woods arrangements was controls on cross-border money flows not linked to trade or long-term investment (Helleiner 1994). Most of Western Europe maintained capital controls even on current account transactions until 1959, rationing the foreign exchange used by citizens to purchase merchandise imports, while Japan retained controls on current account transactions until 1971. Full capital account liberalization among the advanced industrial countries followed slowly and cautiously. Canada, Germany, Switzerland, and the US removed most controls on capital account transactions in 1973–1974, the United Kingdom (UK) and Japan in 1979–1980, and France, Italy, Spain, and Portugal only in 1990–1992 (Eatwell and Taylor 2000, 3). The prevailing international monetary and financial order sanctioned these national decisions.

The LI *modus operandi* is to attempt to resolve problems through incremental improvements in institutional and regulatory frameworks. Thus, following the early 1970s breakdown of the post-war quasi-fixed exchange rate regime, the major country governments began to meet regularly, bargaining over global monetary arrangements via the Group of Seven (G7) quarterly reunions of finance ministers and central bankers inaugurated under the auspices of the Swiss-based BIS (Kapstein 1994; Bergsten and Henning 1996; Cohen 1998; Kenen et al. 2004). Similarly, out of the Asian financial crisis of the late 1990s came a willingness to backtrack on compulsory CAL, and new institutions such as the Financial Stability Forum and the financial G20, the latter charged to study reform of the global financial architecture (Eichengreen 1999).

When problems from CAL appear to fall disproportionately on emerging economies, LIs implicitly advocate patience with the naturally incremental pace of collaborative reform. For example, its association with financial crises is not the only objection raised to CAL. Within-country inequality may be worsened by trade in financial services. Large developing-country firms will gain access to foreign capital through both FDI and international portfolio investments, but medium-sized, small, and micro firms will be relatively disadvantaged in accessing capital. ‘This is very important,’ notes Barbara Stallings (2007, 210), ‘since small firms tend to create the majority of jobs, especially in developing economies.’ De la Torre and Schmukler (2007, 131–3) find that when large firms list their shares and bonds internationally, an increasingly common form of CAL in emerging economies, they tend to delist at home, causing local exchanges to fail, leaving smaller local firms without any capital markets access. For all these reasons, gradual liberalization may be necessary. The presumption behind policy-relevant scholarship in a LI world is that regulatory improvements can and will be made, thus ameliorating unfortunate

negative externalities. Liberal institutionalists in the advanced industrial countries have seen existing processes of cooperative regulatory reform and modernization as positive sum and mostly sufficient.

In contrast, the mental framework of economic realism predisposes policymakers to interpret this same set of problems experienced by EEs through a lens highlighting considerations of power and relative national advantage. Some extreme economic realists (ERs) among emerging economy policymakers or analysts, such as Venezuelan President Hugo Chávez, may see CAL as an explicit conspiracy, 'the nefarious road of neoliberalism,' foisted upon them through the plotting of wealthy countries and the international financial institutions (IFIs), 'the hegemonic centers of imperialism.'¹ Argentine President Néstor Kirchner suggested that it was IMF conditionality during emerging markets financial crises that had 'generated a contagion effect over other countries, which magnified the growth of hunger and poverty internationally.'²

Even more temperate leaders such as recent Brazilian or Chilean presidents have worried that the apparent immunity (at least before 2008) of the advanced industrial economies to the problem of large-scale swings in capital flows had made the wealthy countries and IFIs insensitive to these dangers and reluctant to endorse the measures necessary to protect EEs. They have pointed to the disparity between the United States' ability to employ counter-cyclical measures during the crisis and the wrenching stabilization measures imposed upon developing countries when they experience a financial crisis. They see the impetus for CAL as being driven by wealthy-country leaders primarily concerned with advancing the interests of their domestic financial sectors and insensitive to the problems that may arise in developing countries.

Southern ERs and their sympathizers ask whose interests were served by policies promoting aggressive CAL in emerging economies. As the ratio of international financial to trade flows rose in recent decades, so did the share of the financial services sector in the US economy, which grew from under 6 percent in 1990 to 8.3 percent in 2000, expanding at an average annual rate of 3.2 percent over the decade, as compared to 1.8 percent for US GDP as a whole (SIA 2002). Private financial interests, especially in the US, devoted enormous resources to arguing the case that external capital liberalization is necessary, inevitable, and efficient. Even Jagdish Bhagwati (1998), prominent EL and tireless proponent of free trade, has criticized the preponderant influence of the 'Wall Street-Treasury complex' over international financial institutions such as the IMF (cf. Johnson 2009).

Many ERs have concluded that both the risks and costs of CAL are greatest for poorer countries. On the one hand, international capital flows are highly volatile – especially those going to developing countries. From almost nothing in 1980, net private capital inflows grew to 2.4 percent of the GDP of all developing and post-Socialist countries in 1990. With the Asian financial crisis, flows collapsed to only 0.5 percent of GDP in 1999. By 2007 net inflows again ballooned, this time to 3 percent of these countries' GDP, following which they again crashed as a result of the international crisis that began in the US subprime mortgage markets, falling to only 0.6 percent of GDP in 2009 (UNCTAD 2012, Chapter 1). From 1973 to 1997, poor countries were twice as likely as industrialized ones to suffer from a financial crisis, and the average output loss associated with a financial crisis was 9.21 percent of GDP for developing countries, but only 6.25 percent for developed ones (Eichengreen and Bordo 2002, 41, 42).

On the other hand, without capital controls, national governments may be unable to

pursue rapid catch-up policies. International rules obliging open capital accounts and free entry for foreign banks leave little room for developmentalist (or merely democratic) governments to employ financial levers in the service of growth or equity. Advanced industrial countries have thus asked poor countries to forswear the levers of modestly interventionist national economic governance that today's wealthy economies employed when they were industrializing. As recently as the mid-1990s, public banks accounted for almost a quarter of bank assets in the advanced industrial countries (Levy Yeyati et al. 2004, 38), yet ELs and even many LIs insist that state banks are inefficient and anti-market. Ha-Joon Chang (2002) terms the practice of rich countries condemning state financial levers in poor ones equivalent to 'kicking away the ladder' that the now-industrialized countries themselves had climbed in an earlier era.

The most damning complaints of Southern ERs have concerned the circumstances of when and how the rules and procedures of the international financial governance regime were – or were not – modified in response to problems. Some policymakers in emerging markets hit by financial crises, particularly those in East Asian governments in the late 1990s, argued strenuously that the conditions for them to receive emergency loans from the IMF and World Bank were not only extraordinarily onerous, but also unfair and illogical. The Fund programs designed for countries such as Thailand, Indonesia, and South Korea incorporated cookie-cutter recommendations to, for example, slash public spending on social programs, even under conditions of severe economic contraction and in countries that had not had large government debts or deficits prior to the financial crisis itself, but only developed them afterwards, and as a consequence of their desperate efforts at emergency crisis management. When the charge of irresponsible pre-crisis macroeconomic policies could not be made plausible for countries with low inflation and modest public debt and deficits, the problem statement was amended to rooting out 'crony capitalism,' or the complex of relationship-based business interests intertwined with state favors which had encouraged weak banks and 'sweetheart lending' (Johnson et al. 2000).³ Despite the outcry from or on behalf of crisis countries, these international rescue packages proved notably inflexible (Stiglitz 2002; Blustein 2003). Many Southern ERs interpreted this result as the direct consequence of the distribution of interstate power and influence embodied in the IMF and World Bank.

Following the Asian financial crisis, many emerging economies concluded that, in order to protect themselves from future imported financial turmoil (and inflexible or outright harmful conditions put on their access to emergency short-term sovereign borrowing), their central banks ought to employ explicit and implicit controls on cross-border capital flows in order to build up their war chests of foreign exchange (FX) reserves.⁴ They did just this. In 2001 advanced industrial countries held 61 percent of all official reserves, including those whose currency denomination was not disclosed, but by 2011 their share had fallen by almost half, to 34 percent (IMF/COFER 2013). However, the hoarding of FX reserves is far from being a costless strategy. The opportunity cost of reserves added since the 1980s may be close to 1 percent of developing countries' GDP – an amount equal under some assumptions to the projected gains for developing countries from a successful conclusion of the Doha Round of trade negotiations (Rodrik 2006). But in a realist, competitive international system, capital controls and the stockpiling of official reserves appear as necessary prudential (defensive) steps.

In the view of many economic realists in the global 'South,' the reason that changes

in Fund and Bank conditionality could not happen in time to prevent needless suffering in EEs was not that their complaints were poorly formulated, but rather that those seeking revisions lacked sufficient influence – and votes. When the IMF in 2012 finally announced its acceptance of capital controls as a legitimate remedy for volatile capital flows in times of economic crisis, economic realists such as Paulo Nogueira Batista, IMF director for Brazil, and ten other Latin American and Asian countries, criticized the new position for continuing to treat capital controls as a last resort rather than a standard policy instrument. An official from India's Ministry of Finances complained even more pointedly: 'The talk of capital controls came about because of loose monetary policies by Europe and the US . . . They did not care about the spillover effects it would have on the rest of the global economy. And now the IMF wants us, in a way, to clean up' (Beattie 2012; see also Reuters 2012).

In sum, the views of economic liberals and liberal institutionalists have evolved considerably. The source of the IMF's initial insistence on the unqualified benefits of capital account liberalization was not only economic liberalism but also pressure from the US Treasury. Economic liberals in particular adhered to CAL long after the experience of developing countries contradicted its theoretical underpinnings. The IMF position at the end of 2012 salvaged the economic liberals' argument for CAL as much as was possible in light of empirical experience and the critiques of increasingly powerful emerging economies. Economic liberal and liberal institutionalist views evolved after the accumulation of much empirical analysis but also when proposals for alternative international financial institutions such as those for an Asian Monetary Fund, Banco del Sur, and BRICs development bank added weight to the long-standing criticisms of developing countries. Moreover, many Southern economic realists have perceived the recent evolution of views at the IFIs as primarily a consequence of the post-2008 problems of advanced industrial countries, particularly in Western Europe. What liberal institutionalists, especially constructivists, conceptualize as 'learning' at the IFIs is thus instead understood by many ER policymakers and academics in developing countries as a cynical manipulation of the rules to help one's friends.

INTERNATIONAL ROLE OF THE US DOLLAR

Views of the key currency role of the US dollar (USD) are similarly colored by conflicting ideological frames. This issue gained prominence in the early to mid-2000s. In 2001–2003, about 68 percent of total official foreign exchange reserves whose currency denomination was reported were in US dollars; in 2009–2011, the US dollar share of allocated reserves averaged only 62 percent. The international use of non-traditional currencies for financial contracts and trade invoicing also is rising, albeit from a very low base (World Bank 2011). Emerging economies clubs such as the BRICS, the Chiang Mai Initiative Multilateral in East Asia, and the Common Market of the South (MERCOSUR) in South America all have recently promoted initiatives to encourage local currency invoicing of bilateral trade. The debate has concerned both the causes and the consequences of dollar hegemony and its possible erosion.

Economic history suggests that currencies typically first become internationally dominant when large and economically vital countries run persistent trade surpluses.

Foreigners, including foreign central banks, want to hold their money because it is a good store of value, besides being useful for transactions and accounting purposes. Thereafter, periods of currency hegemony tend to be sticky, enduring even when the relative capability advantage of the economic and financial hegemon begins to fade. Although the US has fielded the major international reserve currency since the mid-twentieth century, the underlying competitiveness of the US economy in the early twenty-first century is apparently eroding, at least as attested by large secular shifts in its balance of payments. The US has had a merchandise trade deficit since about 1971 and a deficit on the full trade account – including merchandise trade as well as trade in services, or ‘invisibles’ – since about 1981. Since 1991, the US current account – comprised of the trade balance, net foreign investment income (interest, dividends, and repatriated profits), the balance of foreign private remittances (money sent home by migrants), and minor items – has shown a steadily expanding deficit. Although US banks and financial firms make enormous profits from the provision of financial services worldwide, leading the financial sector to grow faster than the rest of the American economy as noted above, the current account deficit has been sustained by a growing capital account surplus (net inflow). Thus by 2003, the stock of foreign-owned assets in the US (foreign-owned direct and portfolio investments in the US, plus Americans’ foreign debts) for the first time in recent history exceeded the stock of US-owned assets abroad.

The crucial question is: At what point will the US’s net international debtor position become incompatible with the key currency role that has sustained American prosperity and supported US leadership in the global political economy? In particular, there is much debate over likely future trends in reserve currency holdings, with scholars such as Subramanian (2011) seeing the Chinese renminbi unmistakably on track to replace the US dollar as the world’s major reserve and transactions currency, while others such as Cohen (2011, 2012) remain skeptical. As in the debate on CAL, these invariant facts generate diverging perceptions. Economic liberals and liberal institutionalists, located mostly in the global North, focus on either market mechanisms or benign international institutions born of cooperation, while economic realists in the global South perceive default international currency outcomes as biased against them due to the underlying dynamic of interstate power competition, and so have been increasingly motivated to challenge the global dominance of the US dollar.

Since the end of World War II, economic liberals have accepted the central position of the US in the international monetary system as justified and appropriate, given the enormous productivity of the US economy. That the dollar should be the centerpiece of the global financial system appears natural and market-ordained. If this position has conferred advantages on either the US government or those whose major earnings are in dollars, this is simply an artifact of the operation of supply and demand. However, as the US balance-of-payments position has fallen into deficit, some ELs have offered revisionist interpretations of the deficit, suggesting that principally it was a reflection of imbalances generated elsewhere, or even that it did not really exist at all. Federal Reserve Board Governor Ben S. Bernanke suggested that, rather than resulting from declining US competitiveness, high fiscal deficits, or declining personal savings, the mounting US current account deficit was a consequence of a ‘global saving glut.’ In this view, developing countries attempting to avoid financial crises after the volatile 1990s – along with countries such as Japan and Germany, eager to save for the support of their aging

populations –directed their savings to the US due to the depth and sophistication of its financial markets and the special status of the dollar as the primary global reserve currency. For international capital flows to return to their ‘natural’ direction, developing countries would have to improve their investment climate by ‘continuing to increase macroeconomic stability, strengthen property rights, reduce corruption, and remove barriers to the free flow of financial capital’ (Bernanke 2005). A different claim was that the US trade and current account deficits might have resulted from profound measurement errors, and that in truth the US exported large but uncounted quantities of technical and entrepreneurial expertise that contemporary balance-of-payments reporting missed. This ‘dark matter’ accounted for the otherwise inexplicable willingness of foreigners to hold dollar-denominated assets (Hausmann and Sturzenegger 2005).

The best-known and most politically potent set of analyses along these lines have been those that attributed ‘global imbalances’ principally to domestic policy choices by the Chinese government. The core thesis has been that a combination of domestic financial repression (manifested in artificially low interest rates) and pervasive inward capital controls has kept out foreign capital inflows that otherwise might have operated to push up the renminbi’s (RMB) exchange rate, mainly with the US dollar (Goldstein and Lardy 2003; Truman 2005). Scholars constructed sophisticated models designed to demonstrate the degree to which the renminbi had deviated from its ‘true’ or ‘market’ exchange rate. This research was quickly seized on by some of those in the US Congress who, under the guise of being economic liberals, were more accurately described as Northern economic realists. These members of Congress have sought to increase US exports by prying open foreign markets through legal maneuvers, hitherto mainly by accusing foreign governments of dumping, thus contravening their obligations through the World Trade Organization. Now, in addition to its annual reports of countries that the US Commerce Department labeled unfair traders due to subsidies for their exports, there also would be a list of countries the US government judged to be ‘currency manipulators,’ a designation that also would trigger trade sanctions. Although the US has not as of mid-2013 actually applied this label to China, the process has generated tense negotiations, both bilateral and multilateral, as the US and some allies have attempted to convince the IMF to certify countries as having either market-conforming or manipulated currencies, while the Chinese have furiously resisted.

The essence of the liberal institutionalist view of the US dollar’s key currency role is the conclusion that the post-war global economic governance regime, including the dollar’s role within it, is not the result of the automatic operation of decentralized, impersonal markets, but instead has been intentionally constructed (Frieden 2006; Helleiner 2004). The immediate post-war dollar exchange standard (1944 to early 1970s) and the subsequent pure dollar standard (early 1970s to present) have been public goods provided by the economic and political hegemon for the world, part and parcel of the liberal world order that has secured peace and prosperity (Mandelbaum 2002). LIs emphasize the mutual benefits provided to others by the role of the dollar as the reserve currency, including global stability and a dramatic dampening of the currency wars that battered international economic and political relations in the 1930s.⁵ Institutionalists recognize that the US has reaped advantages from leadership (Cohen 1998, 2003; Eichengreen 2012), yet note that the US also has accepted costs. For decades the US has been the most economically open large country in the world, with low tariffs and open domestic

markets. As the 'market of last resort' many observers accord the US substantial credit for enabling the phenomenon of export-led growth; in East Asia, for example (Deyo 1987). Policymakers in other advanced industrial countries have also usually accepted US monetary dominance as having net benefits for them, though the knowledge that the euro increased its share of global FX reserves from 18 to 26 percent between 2000 and 2007 delighted Europeans. Although their countries do not field the major global reserve currency, policymakers in the other major advanced industrial democracies can find comfort in the knowledge that their currencies also are 'hard,' and thus able to hold their value against gold or the US dollar.

Because of the central role that liberal institutionalists give to international institutions in both causing and alleviating problems in global financial markets, prescient LIs are concerned that continued US monetary leadership is problematic, as the post-war financial hegemon gradually loses its advantage in net economic transactions with the world. So the underlying question is how the status quo in global monetary governance – which LIs understand as necessarily underpinning the key currency role of the US dollar – can gradually be reformed as the era of US dollar hegemony (or mere unipolarity) wanes. In particular, LIs view the regular quarterly meetings of finance ministers and central bank presidents in the G7 countries as necessary for the (relatively) smooth operation of world financial markets. They also understand that the G7 is one of a series of exclusive multilateral clubs that arguably provide global public goods such as functioning trade and financial markets, but which also differentially benefit members. Such clubs can expand. The G5 (US, UK, France, Italy, and Canada) came into being in the early 1970s when the US broke the dollar's direct link to gold (Odell 1982), adding Germany and Japan only in the early 1980s. During the 1980s, intra-G7 negotiations were important in stabilizing exchange rates (Bergsten and Henning 1996).

For the liberal institutionalists, the key point is to ensure that new participants in global monetary governance will make good partners. John Ikenberry notes that:

there are growing pressures, notably the need for resources and the need to maintain relevance that will likely persuade the Western states to admit China into the inner circle of these economic governance institutions . . . As China sheds its status as a developing country (and therefore a client of [the World Bank and IMF]), it will increasingly be able to act as a patron and a stakeholder instead. (Ikenberry 2008, 33)

For some LI observers, nearly all expansions of participation in global governance are positive, whether of non-governmental groups, transnational interests, or of weaker states (Scholte 2004; Germain 2001; Haas 2004; Florini 2003). Others foresee that the indiscriminate promotion of inclusion in bodies accustomed to meeting behind closed doors and operating on the basis of consensus as much as possible may end by rendering them stalemated and ineffective (Keohane and Nye 2001, 2003).

Economic realists within or sympathetic to developing countries are less content with the status quo. While the key currency country enjoys a privileged position, developing countries in contrast suffer from the 'original sin' of having a soft currency (Eichengreen et al. 2003; cf. Baker 2007). Because the currencies of developing countries do not serve as a hedge for any but those few who have future obligations denominated in it, developing countries' citizens and firms with domestic currency incomes are permanently and structurally disadvantaged in international transactions vis-à-vis those whose earnings

are in hard currencies. The governments of poorer, non-hard-currency countries are less able than those of G7 countries to borrow during downturns in the business cycle or during liquidity crises, even crises clearly due to exogenous factors (Wibbels 2005). Moreover, the framing of international monetary relations in terms of power politics makes sense to many developing-country scholars and policymakers, because in the view of many, the institutions of global monetary governance have been explicitly constructed to perpetuate this inequality, and thus to keep developing countries at the bottom of the international monetary hierarchy.⁶ Economic realists sympathetic to the dilemmas of developing countries see in the US dollar's key currency status unwanted hegemonic dominance rather than the provision of public goods, and point to the degree to which the United States has skewed the system to meet its own needs (Block 1978; Tabb 2004; Wade 2003). The worldwide processes of securitization and financial globalization operating since the 1980s have created a class of international capitalists based in the US and other wealthy countries who play an increasingly influential role in the development of global economic governance, and who also can profit from international financial volatility (cf. Robinson 2004). Whether there is any intention to harm emerging economies is really beside the point.

Within the Southern ER framing of contemporary international currency relations, policymakers in emerging economies must take steps to protect their countries. As noted in the preceding section, some developing countries have attempted to prevent international financial contagion by instituting capital controls and stockpiling foreign exchange reserves. Since the turn of the twenty-first century, officials in several of the larger emerging economies have explicitly questioned the legitimacy of the dominance of the US dollar as a reserve currency and for international transactions. The Chinese government's response to accusations of currency manipulation has been to note its trade deficits with some other world areas and to point to the US's ballooning federal deficits and public debt, suggesting that the root of bilateral imbalances has been the US's insatiable appetite for foreign savings (Liang 2007). In 2009 and 2010, Zhou Xiaochuan, Governor of the People's Bank of China, repeatedly complained about US quantitative easing, arguing that the world needed a reserve currency 'that is disconnected from individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies' (Anderlini 2009). Since then, China has taken some initial steps to promote the renminbi as an international currency, such as attempting to attract international investors to the '*dim sum*' bond market. It has also encouraged regional monetary cooperation via the Chiang Mai Initiative and subsequent efforts (Katada and Sohn forthcoming). In 2010, Brazil also entered the fray, as Finance Minister Guido Mantega directly accused the US of pursuing a currency war by running an expansive monetary policy that had the effect of lowering interest rates in the US and sending volatile investors to seek higher returns in countries such as Brazil – thus pushing up the *real* and hitting Brazilian competitiveness. In March 2012, the BRICs club of Brazil, Russia, India, and China issued a joint statement calling for a gradual shift away from use of the US dollar as the major reserve and transactions currency, and pledging themselves to taking incremental but concrete steps, such as bilateral trade invoicing in local currencies, to further the project of promoting currency multipolarity (Armijo and Echeverri-Gent 2012).

The continued dominance of the US dollar as the global reserve currency in the second

decade of the twenty-first century is based less on economic fundamentals than on the lack of viable alternatives for the provision of this public good. The United States' continuous current account deficits since 1992 have been the envy of many countries, and they underscore the influence that the US has derived from issuing the international reserve currency. Nonetheless, other countries are powerless to displace the US dollar until their financial markets rival those of the United States.

LESSONS FROM THE GLOBAL FINANCIAL CRISIS OF 2008–2009

The global financial crisis (GFC) of 2008–2009 began in 2007 in the subprime mortgage markets of the United States, first spreading to most of the major commercial banks and large investment institutions in the US. After stepping in to rescue and recapitalize several major institutions, in September 2008 the US Treasury Department and Federal Reserve Bank decided to let the investment bank Lehman Brothers fail. However, Lehman Brothers was the counterparty to many international transactions; when Lehman defaulted, the crisis spread worldwide, including to Western Europe. Global GDP growth, in constant prices, averaged around 5 percent annually in 2004–2007, fell to under 3 percent in 2008, and shrunk by 0.6 percent in 2009. World trade growth had already slowed in 2007, was 0 percent in 2008, and contracted 11 percent in 2009. Many of the larger emerging markets experienced a swift exodus of portfolio investment as a result of investors' flight from risk at the end of 2008 and in the first half of 2009. However, portfolio investors quickly returned. More lasting and widespread was the reduction in demand for developing-country exports. Confounding initial expectations in the advanced industrial and the emerging economies, the latter recovered faster and more strongly (Wise et al. forthcoming). In 2000, the wealthy countries accounted for 63 percent of global GDP, in purchasing power parity (PPP) terms, with 49 percent of this coming from the G7 countries, while all developing countries accounted for 37 percent. By 2013, the advanced countries had only a 50 percent share of global GDP (of which 37 percent was in the G7). Developing countries accounted for the other 50 percent.⁷

Observers working within each mental model emphasized different lessons from the GFC. Northern economic liberals were shocked by the financial destruction, so much so that they turned to analyses stressing reasons for market failures. While their natural preference has been to imagine that decentralized, competitive markets will sort themselves out without assistance, they easily can conceive of situations in which social institutions, including governments, interfere with free markets. Less congenial, but nonetheless potentially within the mental toolkit, are analyses that suggest that international financial markets need more and better regulation, perhaps including cooperative, joint global regulation. Many economic liberals have highlighted incentives problems in the US residential mortgage-backed securities (RMBS) market: bank employees who originated subprime mortgages had few incentives to ensure that borrowers could afford these loans over the long run, since individual brokers were rewarded for large loan volumes, while the banks that employed them from the beginning had intended to bundle these loans into securities and sell them to other investors, retaining few if any on

their own books. Others have focused on the manner in which the United States federal government intervened in the housing market to expand the 'American dream' of home ownership to low-income families. (Rajan 2010, 34–41). Another problem derived from the fact that international credit rating agencies typically were compensated by bond-issuers, rather than by the institutional investors who purchased those securities (Foley 2013). Significantly, the act of recognizing that these sorts of skewed incentives caused or contributed to the international crisis does not call into question the basic mental model that economic liberals have of the global financial system.

More problematic for the EL framework is the notion that new types of centralized, or at least explicitly and multilaterally coordinated, global regulation might be needed to avert future crises. Nonetheless, mainstream ELs in finance ministries and central banks from all of the G7 (and other) countries now have agreed that previous bank and financial institution regulatory frameworks, mostly national but also including the output of the Basle Committee on Banking Supervision (BCBS), have suffered from an acute case of the fallacy of composition, as capital adequacy requirements and similar provisions had been set at levels high enough to protect a bank during times when the larger financial system was operating normally, but were much too low to protect any given institution during a time of generalized financial crisis. Thus was born the concept of global systemically important financial institutions (GSIFIs). In 2011 the Financial Stability Board and BCBS announced an initial list of 29 such institutions worldwide, with the idea that national regulators in each financial institution's home jurisdiction would jointly agree to impose higher capital adequacy and other prudential requirements on these banks (FSB 2011).

Liberal institutionalists believe in regulation as an invariant necessity for financial markets, and are moreover likely to be comfortable with the idea that effective regulation for global markets should be internationally negotiated and coordinated, if not precisely centrally mandated. The big challenge that the GFC opposed to their mental framing was that of the necessity for expanding the global club that (de facto) managed global monetary and financial relations. Following the September 2008 failure of Lehman Brothers, economic advisors to US President George W. Bush understood that even a coordinated response of the major industrial economies might be insufficient to contain the spreading international financial contagion. Instead, Bush turned to the financial G20, a hitherto peripheral group of advanced capitalist democracies plus large emerging economies that had been established following the Asian financial crisis of the late 1990s, convening the group's first summit of incumbent political leaders in Washington, DC in November 2008. The assembled leaders of the financial G20 – subsequently referred to as the 'large economies' G20' – pledged to contribute to a joint global stimulus, creating the first parallel set of countercyclical policies involving so many countries (Prasad and Sorkin 2009). Despite numerous slips between pledges and actual additional spending or tax relief, the effort was large and very international. Moreover, it worked. Perhaps the most important consequence was the displacement, not complete yet substantial, of the G7 by the G20 as the world's premiere global economic governance club.

Other results of the GFC were relatively easily accommodated within the LI paradigm. LIs could embrace the concept of both GSIFIs (subsequently renamed global systemically important banks, G-SIBs) and the closely related concept of key financial jurisdic-

tions (countries), which is more of a stretch within the EL's mental model. In September 2010 the IMF's Executive Board agreed on regular, public, and mandatory assessments of the domestic financial sectors of 25 systemically important countries, defined as those in which a national meltdown could easily wreak international havoc (IMF 2010). The IMF of course has no authority to enforce its proposals or preferences except on countries that actively are borrowing funds from it. Nonetheless, this was a major shift toward recognition of the importance of countries and their national systems of financial regulation to the global economy, made by an institution that historically had operated almost entirely within an EL mindset, treating international financial relations as largely market-driven.

The views of the economic realists who dominate senior policy circles in the global South have been rather different. On the one hand, there has been some understandable if occasionally immodest triumphalism. In October 2008 President Lula da Silva bragged that the 'financial tsunami' that had hit the United States and other developed nations would be only a wave too small to surf on when it hit Brazil (Galhardo 2008). The World Bank's first ever Chinese Chief Economist, Justin Yifu Lin, introduced a major publication with the baseline assumption of a 'world of progressively more multipolar economic growth and financial centers' (World Bank 2011, xii). On the other hand, there has been frustration in many emerging economy capitals with what has been widely perceived as a profound double standard in global economic governance. The GFC of 2008–2009 mutated into an ongoing rolling eurozone crisis in 2010 and thereafter. In response, the IMF, whose inflexible conditions required for loans had imposed hardships on many developing countries in the 1990s, began arguing under its invariably European managing directors that austerity was counterproductive when the domestic banking sector and economy were collapsing, as the consequent fall in tax revenues and rise in legally mandated social spending would simply worsen public finances. Although leaders in many EEs agreed with the logic, they found it infuriating that such arguments would be made by those in control of the purse strings on behalf of Greece or Portugal, but not in their own cases (Sheel 2012). This perception underlay the decision of the BRICs grouping in 2009 to lobby jointly for expanded quotas at the IMF (Armijo and Echeverri-Gent 2012; Armijo and Roberts forthcoming).

While the GFC undercut the appeal of economic liberalism, it reinforced the liberal institutionalist conviction in the importance of international coordination. Increasing the inclusiveness of the institutions of global financial governance was a necessary recognition of the spread of financial resources to a broader range of countries than at any time since the rise of the West. However, as the experience of the large economies' G20 leaders summits illustrates, including larger numbers of diverse nations threatens the basis of international cooperation unless ways are found to ensure that these countries' commitment to liberal institutionalism tempers their economic realist pursuit of national interest.

CONCLUSIONS

This chapter has argued that three mental models of the workings of the global economy predominate among national policymakers and experts. Among the advanced industrial

countries, both the academic training and the life experiences of leaders and senior advisors lead them to conceptualize the world through either economic liberal (EL) or liberal institutionalist (LI) frameworks. Both the EL vision of competitive and efficient international markets and the LI awareness of cooperatively negotiated international institutions understand the mechanisms of global finance as mostly beneficial for all participants. The economic realists (ERs) who populate capitol buildings and finance ministries in many developing countries, on the other hand, are more wary of global exchanges, and more apt to perceive international monetary and financial arrangements as biased against them. We illustrated these themes through an analysis of contrasting views on capital account liberalization, the key currency role of the US dollar, and the lessons to be learned from the global financial crisis of 2008–2009.

In previous years, leaders of advanced industrial countries justified their control of the governance institutions of international finance with appeals to economic liberalism or liberal institutionalism. They either ignored or defused the efforts of developing-country leaders to alter global financial governance. Today's rapidly changing international balance of economic resources adds weight to the views of developing countries, and their efforts to redistribute influence in international financial institutions cannot easily be disregarded. Understanding the mental models we have outlined is more important than ever in the current conjuncture because these models simultaneously shape the negotiating strategies of key actors and reflect important realities. Appeals to economic liberalism and liberal institutionalism are central to the strategies of advanced industrial countries because they tend to defend the status quo by highlighting the absolute gains that it provides. The economic realism prominent among developing-country policymakers underscores the relative gains of global financial governance at a time when their demands assume increased weight. Our discussion therefore illuminates the dynamics of contemporary global financial governance. Advanced industrial countries seek to convince developing countries of the value of absolute gains provided by the institutions of global financial governance, while providing just enough redistribution of authority to satisfy them. Developing countries attempt to enhance their power within the institutions of global financial governance, while cautiously limiting disruption to the system of global financial governance that has enabled their rise. Whether the institutions of global financial governance will be adjusted successfully, or whether instead they break down precisely at a time when interdependence places a premium on coordination, is one of the great dramas of our age.

Improving our understanding of this global drama is an important objective for future research. Our chapter suggests the need for new research in two domains. First, we need a better understanding of the structure and trajectory of the emerging configuration of international economic power. Recent work has demonstrated that conceptualizing international structure using network analysis enhances our understanding of structural change. Oatley et al. (2013) contend that the current hierarchical structure of global finance with the US at the hegemonic center is likely to remain resilient for the foreseeable future. Yet it is not clear whether their structural analysis adequately allows for the agency of actors within networks (Kahler 2009) or properly accounts for the complex global environment where change in economic domains such as trade, or strategic domains such as military power, might create ultimately irresistible pressures to alter the future structure of global finance (Subramanian 2011; Armijo et al. forthcoming). We clearly need

more studies of the emerging structure of global finance and the sources of its persistence and change. A second, related issue area that our chapter highlights is the importance of mental models or the analytical perspectives that different countries apply to understand global finance and devise their strategies. As events such as the global financial crisis have undermined the legitimacy of global financial institutions, this approach seems especially productive. The association of affluent countries with economic liberalism and liberal internationalism suggests that their strategy in the current transition is relatively well defined: call attention to the absolute gains provided by the current configuration of global markets and international institutions in order to minimize concessions for redistribution. The economic realism of emerging economies, in contrast, while highlighting their interest in redistribution, does not spell out the institutional reforms they prefer to achieve their redistributive goals. For this reason, we need a deeper understanding of the world views of policymakers and scholars from emerging economies. We can better understand the future trajectory of global finance by improving our comprehension of the emerging structure of international financial power and the analytical frames and strategies of decision-making authorities from the increasingly powerful and assertive emerging economies.

NOTES

- * The authors would like to thank Thomas Oatley, Herman Schwartz, Layna Mosley, and Dale Murphy for their comments on earlier versions of this chapter. We would also like to thank the members of the American Political Science Association (APSA) Task Force on Difference and Inequality in Developing Societies for provocative deliberations that stimulated our early thinking on these issues.
1. Chavez, Hugo. 2008. Presidential Speech. 'Respuestas del Sur a la Crisis Económica' (Responses of the South to the Economic Crisis). Caracas, October 8. <http://greenhouse.economics.utah.edu/pipermail/reconquista-popular/2008-October/067304.html>.
 2. Kirchner, Néstor. 2004. Presidential Speech before the UN General Assembly, September 21. <http://www.un.org/webcast/ga/59/alphabetical.html>.
 3. One formulation was the distinction between 'relationship-based' financial regimes on the one hand, and 'rules-based' or 'arm's-length' financial regimes on the other. The multilateral financial institutions have been firmly on the side of the latter (e.g., Litan et al. 2002).
 4. Exchange rate manipulation may accompany or substitute for direct capital controls.
 5. On the theory of hegemonic stability see Kindleberger (1973, 1981), who does not claim the theory, but to whom its basic theses are reasonably attributed (Keohane 1984; Eichengreen 2000).
 6. Liberal institutionalists such as Benjamin J. Cohen (2000) also recognize that the current international monetary system is explicitly hierarchical.
 7. All figures from International Monetary Fund (IMF). Various dates. *World Economic Outlook*. Washington, DC: IMF. <http://www.imf.org/external/pubs/ft/weo/2013/02/>, accessed January 2013.

REFERENCES

- Abdelal, Rawi. 2007. *Capital Rules: The Construction of Global Finance*. Cambridge, MA: Harvard University Press.
- Anderlini, Jamal. 2009. 'China Calls for New Reserve Currency.' *Financial Times*, March 23.
- Armijo, Leslie Elliott. 2002. 'The Terms of the Debate: What's Democracy Got to Do with It?' In L.E. Armijo (ed.), *Debating the Global Financial Architecture*. Albany, NY: SUNY Press, pp. 2–62.
- Armijo, Leslie Elliott and John Echeverri-Gent. 2012. 'Brave New World? Brazil and India's Financial State Statecraft in the Changing Global Order.' Paper presented at the Financial Statecraft Workshop, University of Southern California, Los Angeles, July 27–28.

- Armijo, Leslie Elliott, Laurissa Muehlich, and Daniel C. Tirone. Forthcoming. 'The Systemic Financial Importance of Emerging Powers.' *Journal of Policy Modeling*.
- Armijo, Leslie Elliott and Cynthia A. Roberts. Forthcoming. 'The Emerging Powers and Global Governance: Why the BRICS Matter.' In Robert Looney (ed.), *Handbook of Emerging Economies*. New York: Routledge.
- Avant, Deborah D., Martha Finnemore, and Susan K. Sell (eds). 2010. *Who Governs the Globe?* Cambridge: Cambridge University Press.
- Baker, Regina L. 2007. 'Market Realism: Power and the Gains from Trade in the Neo-Liberal Economic Order.' Unpublished paper, Department of Political Science, University of Oregon, March.
- Baldwin, David A. 1985. *Economic Statecraft*. Princeton, NJ: Princeton University Press.
- Beattie, Alan. 2012. 'IMF Accepts Temporary Capital Controls.' *Financial Times*, December 3.
- Bergsten, C. Fred and C. Randall Henning. 1996. *Global Economic Leadership and the Group of Seven*. Washington, DC: Institute for International Economics.
- Bernanke, Ben S. 2005. 'The Global Savings Glut and the US Current Account Deficit.' Sandridge Lecture, Virginia Association of Economists, Richmond, VA, May 10.
- Bhagwati, Jagdish. 1998. 'The Capital Myth.' *Foreign Affairs*, May–June. www.foreignaffairs.com.
- Block, Fred L. 1978. *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present*. Berkeley, CA: University of California Press.
- Blustein, Paul. 2003. *The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF*. New York: Public Affairs.
- Brunner, Karl and Allan H. Meltzer. 1993. *Money and the Economy*. Cambridge: Cambridge University Press.
- Chang, Ha-Joon. 2002. *Kicking Away the Ladder: Development Strategy in Historical Perspective*. London: Anthem Press.
- Chinn, Menzie and Hiro Ito. 2008. 'A New Measure of Financial Openness.' *Journal of Comparative Policy Analysis* 10(3): 309–22.
- Cohen, Benjamin J. 1998. *The Geography of Money*. Ithaca, NY, USA and London, UK: Cornell University Press.
- Cohen, Benjamin J. 2000. 'Life at the Top: International Currencies in the Twenty First Century.' Essays in International Economics, no. 221. International Economics Section, Department of Economics, Princeton University.
- Cohen, Benjamin J. 2003. *The Future of Money*. Ithaca, NY: Cornell University Press.
- Cohen, Benjamin J. 2011. 'The Yuan Tomorrow: Evaluating China's Currency Internationalization Strategy.' Unpublished paper. Department of Political Science, UCSB.
- Cohen, Benjamin J. 2012. 'The Yuan's Long March.' Unpublished paper. Department of Political Science, UCSB, May.
- Cox, Robert. 1979. 'Ideologies and the NIEO: Reflections on Some Recent Literature.' *International Organization* 33(2): 257–302.
- de la Torre, Augusto and Sergio L. Schmukler. 2007. *Emerging Capital Markets and Globalization: The Latin American Experience*. Stanford, CA: Stanford University Press.
- Deyo, Frederick (ed.). 1987. *The Political Economy of the New Asian Industrialism*. Ithaca, NY: Cornell University Press.
- Dorn, James A. 1999. 'Introduction' to Special Issue on the Global Financial Architecture.' *Cato Journal*, 18(3): 311–20.
- Eatwell, John and Lance Taylor. 2000. *Global Finance at Risk: The Case for International Regulation*. New York: New Press.
- Eichengreen, Barry. 1999. *Toward a New International Financial Architecture: A Practical Post-Asia Agenda*. Washington, DC: Institute for International Economics.
- Eichengreen, Barry. 2000. 'Hegemonic Stability Theories of the International Monetary System.' In Jeffrey A. Frieden and David A. Lake (eds). *International Political Economy: Perspectives on Power and Wealth*. 4th edn. Boston, MA: Bedford/St Martin's.
- Eichengreen, Barry. 2012. *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*. New York: Oxford University Press.
- Eichengreen, Barry and Michael D. Bordo. 2002. 'Crises Now and Then: What Lessons From the Last Era of Financial Globalization?' National Bureau of Economic Research Working Paper 8716. <http://www.nber.org/papers/w8716>.
- Eichengreen, Barry, Ricardo Hausmann, and Ugo Panizza. 2003. 'Currency Mismatches, Debt Intolerance, and Original Sin: Why They are Not the Same and Why it Matters.' NBER Working Paper #10036. Cambridge, MA: National Bureau of Economic Research, October.
- Ferguson, Niall. 2001. *The Cash Nexus: Money and Power in the Modern World, 1700–2000*. New York: Basic Books.
- Financial Stability Board (FSB). 2011. 'Policy Measures to Address Systemically-Important Financial Institutions.' November 4. http://www.financialstabilityboard.org/publications/r_111104bb.pdf.

- Fischer, Stanley. 1998. 'Capital Account Liberalization and the Role of the IMF.' In Stanley Fischer et al. (eds), 'Should the IMF Pursue Capital Account Convertibility.' Essays in International Finance #207, Department of Economics, Princeton University, pp. 1–10.
- Florini, Ann. 2003. *The Coming Democracy: New Rules for Running a New World*. Washington, DC: Island Press.
- Foley, Stephen. 2013. 'Regulation: Outlook Unchanged.' *Financial Times*, January 14.
- Frieden, Jeffrey. 2006. *Global Capitalism: Its Fall and Rise in the Twentieth Century*. New York: W.W. Norton.
- Friedman, Milton. 1992. *Money Mischief: Episodes in Monetary History*. New York: Harcourt Brace Jovanovich.
- Galhardo, Ricardo. 2008. 'Lula: Crise é tsunami nos EUA, e se chegar ao Brasil, será "marolinha".' *Globo*, October 4.
- Germain, Randall D. 2001. 'Global Financial Governance and the Problem of Inclusion.' *Global Governance* 7(3): 411–26.
- Gilpin, Robert. 1987. *The Political Economy of International Relations*. Princeton, NJ: Princeton University Press.
- Goldstein, Judith and Robert O. Keohane (eds). 1993. *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change*. Ithaca, NY: Cornell University Press.
- Goldstein, Morris and Nicholas Lardy. 2003. 'Two-Stage Currency Reform for China.' *Asian Wall Street Journal*, September 12.
- Haas, Peter M. 2004. 'Addressing the Global Governance Deficit.' *Global Environmental Politics* 4(4): 1–16.
- Hausmann, Ricardo and Federico Sturzenegger. 2005. 'Global Imbalances or Bad Accounting? The Missing Dark Matter in the Wealth of Nations.' Unpublished paper. Cambridge, MA: Kennedy School of Government, December.
- Helleiner, Eric. 1994. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. Ithaca, NY: Cornell University Press.
- Ikenberry, G. John. 2008. 'The Rise of China and the Future of the West: Can the Liberal System Survive?' *Foreign Affairs*, 87(1). www.foreignaffairs.com.
- International Monetary Fund (IMF). 2010. 'Integrating Stability Assessments Under the Financial Sector Assessment Program into Article IV Surveillance.' Washington, DC: IMF, August 27.
- International Monetary Fund (IMF). 2013a. 'Currency Composition of Official Foreign Exchange Reserves (COFER).' Update of March 29.
- International Monetary Fund (IMF). 2013b. *World Economic Outlook Database*. April.
- Jeanne, Olivier, Arvind Subramanian, and John Williamson. 2012. *Who Needs to Open the Capital Account?* Washington, DC: Peterson Institute for International Economics.
- Johnson, Simon. 2009. 'The Quiet Coup.' *Atlantic*, May. www.theatlantic.com.
- Johnson, Simon, Peter Boone, Alasdair Breach, and Eric Friedman. 2000. 'Corporate Governance in the Asian Financial Crisis.' *Journal of Financial Economics*, 58(1–2): 141–86.
- Kahler, Miles. 2009. *Networked Politics: Agency, Power, and Governance*. Ithaca, NY: Cornell University Press.
- Kahler, Miles and David A. Lake (eds). 2003. *Governance in a Global Economy: Political Authority in Transition*. Princeton, NJ: Princeton University Press.
- Kapstein, Ethan. 1994. *Governing the Global Economy*. Cambridge, MA: Harvard University Press.
- Katada, Saori N. and Injoo Sohn. Forthcoming. 'Regionalism as Financial Statecraft: Pursuit of a Counterweight Strategy by China and Japan.' In Leslie Elliott Armijo and Saori N. Katada (eds), *Financial Statecraft of Emerging Powers: Asia and Latin America in Comparative Perspective*. London: Palgrave Macmillan.
- Kenen, Peter B., Jeffrey Shafer, Nigel Wicks, and Charles Wyplosz. 2004. *International Economic and Financial Cooperation: New Issues, New Actors, New Responses*. London: Centre for Economic Policy Research, September.
- Keohane, Robert O. 1984. *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton, NJ: Princeton University Press.
- Keohane, Robert O. and Joseph S. Nye. 2001. 'The Club Model of Multilateral Cooperation and Problems of Democratic Legitimacy.' In Robert B. Porter, Pierre Sauvé, Arvind Subramanian, and Americo Beviglia Zampetti (eds), *Efficiency, Equity, and Legitimacy: The Multilateral Trading System at the Millennium*. Washington, DC: Brookings Institutions, pp. 264–94.
- Keohane, Robert O. and Joseph S. Nye Jr. 2003. 'Redefining Accountability for Global Governance.' In Miles Kahler and David A. Lake (eds), *Governance in a Global Economy: Political Authority in Transition*. Princeton, NJ: Princeton University Press, pp. 386–411.
- Kindleberger, Charles P. 1973. *The World in Depression, 1929–1939*. Berkeley, CA: University of California Press.
- Kindleberger, Charles P. 1981. 'Dominance and Leadership in the International Economy.' *International Studies Quarterly*, 25(2): 242–54.

- Kirshner, Jonathan. 1997. *Currency and Coercion: The Political Economy of International Monetary Power*. Princeton, NJ: Princeton University Press.
- Kose, M. Ayhan, Eswar Prasad, Kenneth Rogoff, and Shang-Jin Wei (2006). 'Financial Globalization: A Reappraisal.' IMF Working Paper (WP/06/189). Washington, DC.
- Krasner, Stephen D. 1985. *Structural Conflict: The Third World Against Global Liberalism*. Berkeley, CA: University of California Press.
- Krasner, Stephen D. 1991. 'Global Communications and National Power: Life on the Pareto Frontier.' *World Politics* 43(3): 336–66.
- Levy Yeyati, Eduardo, Alejandro Micco, and Ugo Panizza. 2004. 'Should the Government be in the Banking Business? The Role of State-Owned and Development Banks.' Working Paper #517. Washington, DC: Inter-American Development Bank, November.
- Liang, Wei. 2007. 'China: Globalization and the Emergence of a New Status Quo Power?' *Asian Perspective* 31(4): 125–49.
- Litan, Robert E., Michael Pomerleano, and V. Sundarajan (eds). 2002. *Financial Sector Governance: The Roles of the Public and Private Sectors*. Washington, DC: Brookings Institution Press.
- Mandelbaum, Michael. 2002. *The Ideas that Conquered the World: Peace, Democracy, and Free Markets in the Twenty-first Century*. New York: Public Affairs.
- Martin, Lisa L. 1993. 'Credibility, Costs, and Institutions: Cooperation on Economic Sanctions.' *World Politics* 45(3): 406–32.
- Mearsheimer, John. 2001. *The Tragedy of Great Power Politics*. New York: W.W. Norton.
- Micklethwait, John and Adrian Woolridge. 2000. *A Future Perfect: The Essentials of Globalization*. New York: Crown Business.
- Morgenthau, Hans Joachim. 1948. *Politics Among Nations; the Struggle for Power and Peace*. New York: Alfred A. Knopf.
- Murphy, Craig. 1984. *Emergence of the NIEO Ideology*. Boulder, CO: Westview.
- Oatley, Thomas, W. Kindred Winecoff, Andrew Pennock, and Sarah Bauerle Danzman. 2013. 'The Political Economy of Global Finance: A Network Model.' *Perspectives on Politics* 11(1): 133–53.
- Odell, John S. 1982. *US International Monetary Policy: Markets, Power, and Ideas as Sources of Change*. Princeton, NJ: Princeton University Press.
- Prasad, E. and I. Sorkin. 2009. 'Assessing the G-20 Economic Stimulus Plans: A Deeper Look.' Washington, DC: Brookings Institution.
- Rajan, Raghuram G. 2010. *Fault Lines: How Hidden Fractures Still Threaten the World Economy*. Princeton, NJ: Princeton University Press.
- Reuters. 2012. 'IMF Adopts View on Capital Controls, Emerging Countries Wary.' December 3.
- Robinson, William I. 2004. *A Theory of Global Capitalism: Production, Class, and State in a Transnational World*. Baltimore, MD: Johns Hopkins University Press.
- Rodrik, Dani. 2006. 'The Social Cost of Foreign Exchange Reserves.' *International Economic Journal* 20(3): 253–66.
- Rothstein, Robert L. 1979. *Global Bargaining: UNCTAD and the Quest for a New International Economic Order*. Princeton, NJ: Princeton University Press.
- Roubini, Nouriel and Brad Setser. 2004. *Bailouts or Bail Ins: Responding to Financial Crises in Emerging Markets*. Washington, DC: Institute for International Economics.
- Roy, Ravi K., Arthur T. Denzau, and Thomas D. Willett. 2007. *Neoliberalism: National and Regional Experiments with Global Ideas*. New York: Routledge.
- Scholte, Jan Aart. 2004. 'Democratizing the Global Economy: The Role of Civil Society.' Working Paper. Coventry: Centre for the Study of Globalisation and Regionalisation (CSGR), University of Warwick, June.
- Securities Industry Association (SIA). 2002. 'Why World Markets are Important to US Financial Firms.' Financial Services Brief, March. New York: Securities Industry Association.
- Sheel, Alok. 2012. 'IMF and the Eurozone: A Developing Country Perspective.' *Economic and Political Weekly* (Mumbai), December 29, pp.20–22.
- Slaughter, Anne Marie. 2004. *A New World Order*. Princeton, NJ: Princeton University Press.
- Soros, George. 2008. 'The Worst Market Crisis in 60 Years.' *Financial Times*, January 22.
- Stallings, Barbara. 2007. 'The Globalization of Capital Flows: Who Benefits?' *Annals of the American Political Academy of Political and Social Science* 610(March): 202–16.
- Steil, Benn and Robert E. Litan. 2006. *Financial Statecraft: The Role of Financial Markets in American Foreign Policy*. New Haven, CT: Yale University Press.
- Stiglitz, Joseph E. 2002. *Globalization and Its Discontents*. New York: W.W. Norton.
- Stolper, Wolfgang F. and Paul A. Samuelson. 1941. 'Protection and Real Wages.' *Review of Economic Studies* 9(1): 58–73.
- Stone, Randall W. 2011. *Controlling Institutions: International Organizations and the Global Economy*. New York: Cambridge University Press.

- Subramanian, Arvind. 2011. 'Renminbi Rules: The Conditional Imminence of the Reserve Currency Transition.' Working Paper 11-14. Washington, DC: Peterson Institute of International Economics, September.
- Tabb, William K. 2004. *Economic Governance in an Age of Globalization*. New York: Columbia University Press.
- Truman, Edwin M. 2005. 'Postponing Global Adjustment: An Analysis of the Pending Adjustment of Global Imbalances.' Working Paper 05-6. Washington, DC: Peterson Institute of International Economics, July.
- United Nations Conference on Trade and Development (UNCTAD). 2012. *Development and Globalization: Facts and Figures 2012*. New York: United Nations. dgff.unctad.org, accessed January 2013.
- Wade, Robert Hunter. 2000. 'Out of the Box: Rethinking the Governance of International Financial Markets.' *Journal of Human Development* 1(1): 145–57.
- Wade, Robert Hunter. 2003. 'The Invisible Hand of the American Empire.' *Ethics and International Affairs* 17(12): 77–88.
- Waltz, Kenneth N. 1979. *Theory of International Politics*. New York: McGraw-Hill.
- Wibbels, Eric. 2005. 'Dependency Revisited: International Markets, Business Cycles, and Social Spending in the Developing World.' Paper presented at the Annual Meeting of the International Studies Association, Honolulu, March.
- Wise, Carol, Leslie Elliott Armijo, and Saori Katada (eds). Forthcoming. *Unexpected Outcomes: How Emerging Markets Survived the Global Financial Crisis*. Washington, DC: Brookings Institution.
- Wolf, Martin. 2005. *Why Globalization Works: The Case for the Global Market Economy*. New Haven, CT: Yale University Press.
- World Bank. 2011. *Multipolarity. The New Global Economy*. Global Development Horizons 2011. Advance edition. Washington, DC: World Bank, May.

