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The International Financial System and Its Discontents

China, Argentina, and the Contestation of Western-led Institutions

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Abstract

As China's economic rise unfolded over the last two decades, its dissatisfaction with the existing architecture of the global financial system has grown accordingly, creating a common ground between the PRC and several actors from the Global South. One manifestation of this convergence has been the proliferation of currency swap agreements between Beijing and many developing countries. This paper investigates whether those initiatives fit into Beijing's larger strategy of contestation towards the existing Western-led financial system. It does so by looking at the case of Argentina. Two tentative conclusions are drawn: in line with Beijing's overall contestation strategy, the swap deals do not yield disruptive effects on the current order; however, those arrangements contribute to strengthening China's position and, by offering an alternative to other dissatisfied actors, they bear the potential to modify the architecture of the international financial system over the long run.

Keywords: China; Contestation; International Financial System; Argentina; Currency Swap

Introduction

Within the broad and urgent topic under discussion in this Special Issue – the current state and the future of the Liberal International Order (LIO) – the financial dimension of the post-WWII architecture and the challenge posed by China's ascendancy deserve a special mention.

China's rise over the last two decades has transformed the structure of the world economy. Nevertheless, the international financial architecture – modelled on the centrality of the United States and the Western European economies – has not changed accordingly. Beijing has shown a mixed attitude towards the main International Financial Institutions (IFIs)[1]. Indeed, it has pushed for the reform of the system's core organisations – such as the International Monetary Fund (IMF) – signalling the intention to adapt rather than disrupt those institutions (Xiao, 2015). At the same time, it has implemented several initiatives that have the potential to undermine the centrality of the current financial institutions and question their future role (Sundquist, 2021). Overall, China has taken an

[1] For an overview of the interaction between China and the international financial system (IFS), see Helleiner and Kirschner (2014).

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ambiguous position, contesting some initiatives without apparently altering the foundations of the system, which makes it difficult for the scholarship to conclusively define the Chinese project as "revisionist" (Zhao, 2018).

In various degrees, Beijing's stance is shared by many actors that feel dissatisfied with the current structure of the Western-led institutions (Hooijmaaijers, 2019). One of the consequences of this convergence has been the proliferation of new financial arrangements between China and many countries in the Global South.

Among the China-sponsored financial deals, the currency swap agreements offer revealing insights[2]. On the one hand, they allowed Beijing to boost the renminbi's (RMB) internationalisation and attempt to reduce the reliance on the dollar, whose dominance is one of the key features of the current system. On the other hand, they offered countries with limited access to the financial markets to obtain new credit lines outside of the conditionalities set by the traditional IFIs.

Do these initiatives offer an alternative to the other actors of the system? Do these initiatives represent an attempt by Beijing to undermine the IFS and lay the foundations of an alternative structure? This article attempts a preliminary answer to these questions by looking at the case of Beijing's swap deals with Argentina. Two main reasons explain this selection. Firstly, Argentina is one of the few countries (the only one in the Western hemisphere) to have activated the swap mechanism. Secondly, Argentina has experienced a stormy relationship with the IMF, which has pushed the South American economy to the margins of the IFS (Kedar, 2013). Therefore, although this case presents peculiarities that prevent simple generalisations, it assists in understanding the broad context in which Beijing-led financial arrangements take place and what fruits they might bear in relation to the current financial architecture.

In line with the framework elaborated in the Introduction of this Special Issue, this paper posits that China's strategy for consolidating the renminbi globally and creating alternative paths to the IMF represents a form of contestation of the existing order. Indeed, Beijing has deliberately targeted those countries more in need of foreign reserves and more critical of Western institutions. However, the paper also argues that Beijing's initiatives have not represented an attempt to dismiss the existing institutions or create a new financial structure in the short term. Rather, they seem to conform to a broader strategy put in motion by Beijing to acquire a greater role in the current financial structure. The paper also contributes to unveiling the conditions under which countries from the Global South can accede and legitimise Beijing's sponsored deals.

Employing data from official sources and the literature, the present article is structured as follows. The first section provides the essential elements of China's quest for reforming the international financial system. The following section explores whether the internationalisation of the Chinese currency fits within the framework of Beijing's contestation. Successively, the focus has been placed on bilateral swap agreements (BSAs). Then, the article presents the case of the relationship between Argentina and China. In particular, the signing and activation of the various BSAs between the two countries are analysed as an example of how China's push for the transformation of the current order can combine and match with the financial needs (and the dissatisfaction) of a country with limited opportunities on the international markets.

[2] A bilateral currency swap is an agreement to exchange currency between the contracting parties at a fixed interest rate. "BSAs have typically been used as a way to deliver foreign exchange from one sovereign to another facing a liquidity crisis" (Liao & McDowell, 2015, p. 405). Beyond this use, BSAs can be employed for cross-border trade settlement.

China’s rise and the future of the LIO: beyond the revolution-integration dichotomy

China’s role within the LIO has long been debated in the literature. A major tendency – rooted in the liberal/realist divide – has been to depict a rather dichotomic scenario, in which either China will act as a revolutionary force running against the very existence of the order or it will turn into a responsible stakeholder by complying the liberal norms and values (Ikenberry, 2011; Mearsheimer, 2019).

However, many scholars have questioned this binary vision, arguing that the interaction between China and the LIO is way more nuanced, falling between the extremes of revolution and co-optation (Johnston, 2019). Accordingly, China is expected to contest some of the norms and institutions of the order while complying with others, pushing for the radical reform of several components of the liberal architecture while adapting to other ones (Breslin, 2018). This intermediate position between contestation and integration is not grasped by the traditional labels of “status quo” or “revolutionary” power. As pointed out by Zhao, Beijing could be better described as a “revisionist stakeholder”, “dissatisfied not with the principles but its status in the hierarchy of the order” (2018, p. 644).

What has been said so far applies also to the economic and financial fields. Scholars are divided on the interpretation of China’s goals concerning the current financial institutions, whether it aims to reform them or mould new ones fitting its preferences and interests. Again, these alternatives have often been presented dichotomously, as if the rising power only had to choose between embracing the liberal principles of the financial system or challenging it by promoting its state-driven, illiberal model (Breslin, 2018).

However, several voices have suggested that the empirical evidence of Beijing’s policies points towards a different scenario. For instance, China has actively engaged with and within major institutions like the IMF and the World Bank. However, it has also repeatedly manifested its quest for reforming them or laid the foundations for brand-new organisations, such as the Asian Infrastructure Investment Bank (AIIB). Therefore, Beijing does not seem willing (or ready) to challenge the very existence of the order, but it is certainly not complying with all its rules and values (Drysdale et al., 2017; Xiao, 2015; Weinhardt & ter Brink, 2020).

Within the debate about Beijing’s intentions, the internationalisation undergone by the Chinese currency has occupied a prominent space (Eichengreen & Kawai, 2015; Helleiner & Kirschner, 2014). Embedded in the debate on the RMB’s path towards the global currency status is the discussion on the spread of the BSAs signed by the People’s Bank of China (PBOC) over the last decade. According to Drysdale et al. (2017), Mingqi (2016), and Medhora (2017), the network of swap lines built over the years by Beijing is primarily related to the dissatisfaction with the ongoing reform of the IFIs (notably the IMF).

However, as McDowell noted, those deals can be interpreted as “a power play by Beijing” (2019, p. 126), through which two foreign policy goals were pursued. The first one has been defensive: to expand the use of the RMB internationally (by allowing partner countries to pay for Chinese imports in that currency) and, consequently, reduce the reliance on the US dollar, whose use for trade settlement exposes the contracting parties to the volatility of the foreign exchange rate. The second goal, instead, has been prominently offensive: to advance China’s role as a lender of last resort for countries facing severe shortages of liquidity and limited access to financial markets – which is a tool for enhancing Chinese leverage on partner countries (McDowell, 2019).

The evaluations of the effectiveness of such bilateral agreements have generally been negative (McDowell, 2019; Mingqi, 2016). Those assessments parallel the considerations on the broader issue of RMB’s internationalisation. Scholars have found that both external and domestic factors preclude – at least, for the moment – the renminbi’s capacity to pose a structural challenge to the dollar's dominance (Bowles & Wang, 2013; Eichengreen, 2015). However, Liao and McDowell have highlighted that these evaluations tend to "characterise RMB internationalisation as a predominantly supply-side story" (2015, p. 401). The process, those authors argue, is far more complex than a mere attempt by Beijing to expand its power; it also involves market-driven factors – such as other countries' need for liquidity or foreign reserves – that cannot be ignored. Therefore, further research on the demand side of the process is still needed.

The few studies dedicated to the perspective of China's partners have mainly tackled the issue through a quantitative approach (Chey et al., 2019; Garcia-Herrero & Xia, 2015). Instead, very few studies – as Chey's work (2015) on South Korea – have provided in-depth, qualitative analyses of specific case studies. Consequently, there is still little understanding of the specific circumstances under which each partner country has decided to converge with China. The present paper aims to move several steps in this direction by providing a qualitative analysis of the Sino-Argentinian financial cooperation.

Although Argentina, Brazil, and Chile have each come to sign a swap deal with the PBOC, only a few studies have been dedicated to the South American region (Laufer, 2020; Yu, 2019). Regarding the Argentinian case, the works by Brenta and Larralde (2018, 2019) have provided in-depth accounts of the bilateral arrangements signed by Buenos Aires and Beijing. Other studies on Argentina's foreign policy have only marginally dealt with the topic (Actis & Creus, 2015; Nemiña, 2018; Oviedo, 2018). Most importantly, little attention has been paid to how the Argentinian case stands within the broader issue of China's contestation of the current international order. The present paper attempts to proceed in this direction by bridging the gap between the two branches of the literature mentioned above – the case-specific one on Argentina and the broader one on China's global strategy.

China's contestation of the IFIs and the internationalisation of the renminbi

Amid the 2008 financial crisis, during the first-ever G20 Summit on Financial Markets and World Economy, Hu Jintao (2008) spelt out openly China's call for "a comprehensive reform [...] to improve not only the international financial system, monetary system and financial institutions but also international financial rules and procedures". The call was firstly motivated by the shortcomings that the financial system had shown after the 2008 collapse. However, Hu Jintao's words pointed to a much deeper issue than the simple recrimination against the inefficiencies of the global financial architecture. In his speech, Hu called for a substantial reform process that – beyond the critical conjuncture – had to overcome the deficiencies of a global system crafted many decades before and shaped by the interests of the Western, advanced economies.

Chinese authorities were mainly concerned with the lack of representativeness inherent in the IMF, for which they asked the review of the quotas, and the system's over-reliance on the US dollar, which had proved to be a source of instability for the world economy (Zhou Xiaochuan, 2009).

The pressure coming from China and the other emerging economies initially seemed to bear fruit. Concluding the consultation process started in 2008, several reforms concerning the IMF's governance and quotas were approved (IMF, 2010). However, both the results and the pace of the process turned out to be largely disappointing from the Chinese perspective.[3]

[3] Western actors kept their veto power almost intact after the redistribution of the quotas; the US still accounted for over 16.5%, while the BRIC bloc did not obtain such power, as its voting share remained below 13.5%. In addition, the implementation of the reform took many years – well beyond the initial deadline set

Partially due to these shortcomings, another relevant change was introduced in 2016: the Chinese renminbi was added to the Fund's Special Drawing Right (SDR) basket[4] as an international reserve currency – together with the dollar, the euro, the yen, and the pound (IMF, 2016). The inclusion into the SDR basket represented the direct consequence of the internationalisation process that the Chinese currency had started after the 2008 crisis (Eichengreen & Kawai, 2015, pp. 1-2). According to Bowles and Wang (2013), the experience of the crisis accelerated Beijing's effort for RMB's internationalisation. Indeed, the diffused awareness among the Chinese elites about the risk of liquidity shocks and trade disruptions associated with the excessive reliance on a foreign currency pushed for increasing the use of the renminbi and differentiating foreign reserves.

Beyond these purely defensive goals, however, the internationalisation of the RMB was also intended to enhance China's influence within the financial order, or what Chin (2014) has defined as the "second face of structural power" in international monetary relations – which consists in providing new options to states and market actors, creating alternative monetary tools other than the existing, dollar-dominated ones (pp. 185-186).

Beijing's currency swaps: purpose, accomplishments, prospects

The renminbi's internationalisation process can be read according to two different interpretations. On the one hand, as a supplementary part of the quest for reforming the existing financial system and as a defensive initiative against its shortcomings. On the other hand, as the attempt to undermine the centrality of the dollar and increase China's influence globally. Although these views are often seen as alternatives, they can also be considered complementary pieces of Beijing's strategy, both contributing to the expansion of the country's financial power.

The double-edged nature of Beijing's attitude is easily visible in relation to one of the most relevant tools employed by Chinese authorities to promote the global use of the renminbi – i.e., the BSAs. As noted by McDowell (2019), these agreements were intended as both a shield against the vulnerability deriving from the dependency on the US dollar and as offensive financial statecraft to enhance China's influence over partner countries.

The People's Republic of China (PRC) has not been the first country to resort to such instruments[5]. However, China's sponsored deals have marked a significant difference from other antecedents. Indeed, while the latter were all anchored to the US currency, the swaps proposed by Beijing were based on the exchange between local currencies and the renminbi, intentionally created to bypass the mediation role of the dollar (Mingqi, 2016, p. 142).

The first bilateral deal signed by China and a partner country outside of the dollar-dominated system dates back to 2008 when the PBOC and the central bank of South Korea agreed to a swap scheme worth RMB 180 billion. Since then, Beijing has rapidly expanded its network of currency swaps (see Figure 1), and by 2016, it held 33 bilateral deals worth almost $500 billion (Steil, 2019). An important acceleration occurred under Xi Jinping, as between 2013 and 2015, the PBOC signed over 15 agreements – almost the same figure as the previous five years (Yelery, 2016). Although the expansion of the swap network regarded the Asian theatre primarily, it has become evident over time that the PRC had no

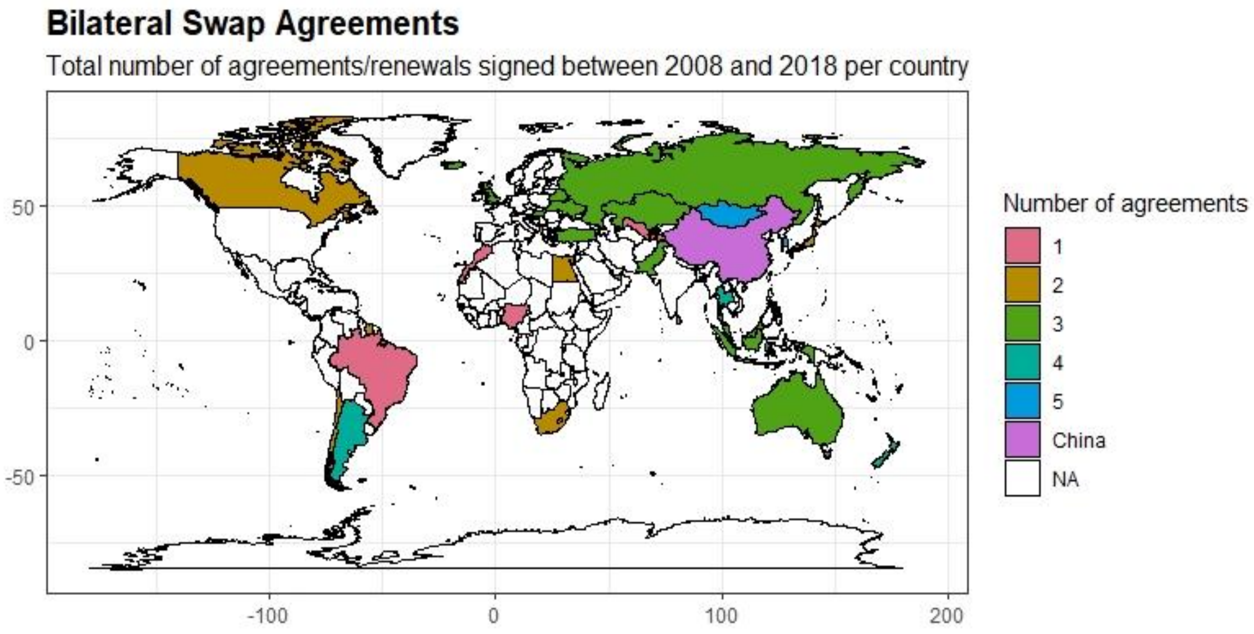
for 2012. Indeed, pending the ratification of the US, the reform entered into force only in early 2016 – when the US Congress finally approved it.

[4] The international reserve asset created by the IMF in 1969 to support the official reserves of its member countries.

[5] The US Federal Reserve has historically been the most active player in this field (particularly after 2008). Moreover, one of the responses to the 1997 Asian crisis was the establishment of the Chiang Mai Initiative, a network of BSAs among ASEAN countries plus Japan, South Korea, and China itself.

preference for the countries belonging to its neighbourhood but rather was interested in reaching out to all corners of the world indistinctly (Eichengreen & Lombardi, 2017, p. 49).

Figure 1. Number of China's BSAs.



Source: authors' own elaboration, compiled from Yelery (2016), Liao & McDonnell (2015), Brenta & Larralde (2018), IMF (2021).

The impressive pace of growth of the China-sponsored currency swaps following the 2008 financial crisis fostered interest among academics and practitioners. Alongside the expansion of Chinese trade and investment worldwide, the foundation of new institutions, or the launching of the BRI, the spread of Beijing's swap deals promised a greater international role for the RMB and, more broadly, a much larger voice for China in global financial governance.

However, despite the promising start, many of Beijing's initiatives have delivered much less than expected (Hooijmaaijers, 2019). This is also the case of the Chinese swaps, particularly for the post-2016 period, when the initial push behind those agreements started to lose strength and the use of the renminbi for trade settlement slowed down (McDowell, 2019, pp. 131-133). Mingqi has noted that the temporary nature of most of China's deals and the limited implementation by partner countries mean that "currency swaps could only generate some indirect impacts" (2016, p. 149). Discordant voices have nevertheless been heard, finding empirical evidence of the positive effect of the BSAs on the use of the RMB for cross-border trade (Song & Xia, 2020) or for boosting the liquidity of non-OECD partners (Li et al., 2020).

Moreover, even those arguing against the immediate impact of Beijing's swaps have recognised the indirect effect that those deals might have. For example, McDowell argues that "through its negotiations of BSAs, Beijing may be developing the potential to manipulate access to liquidity in ways similar to Washington" (2019, p. 133). Although he expresses several doubts about the viability of such a strategy, the "offensive" use of the swaps is recognised as the most promising dimension of China's initiatives, considering how attractive Beijing's proneness to offer liquidity without strict conditionalities is for developing countries (McDowell, 2019, p. 139). Other observers have emphasised the potential of this latter employment of the BSAs by China. In particular, Medhora (2017) and

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Sundquist (2021) have noted how currency swaps between central banks might work (and have done so in some cases) as bypasses of the Western-led liquidity safety net – namely, as a way for countries experiencing liquidity shocks, to avoid the support of the IMF and its rigorous programs.

According to this view, China might be developing the long-term capacity to act as the lender of last resort and substitute the existing international institutions. At the same time, China does not seem to be ready to dismiss the IMF or promise unconditional financial assistance to all its partners. As Sundquist (2021) has pointed out, too hazardous steps by China would run against its interests. Indeed, even if it opposes the Fund's prescriptions on the ideological ground, "providing all troubled countries with a financial exit option would require colossal sums of money" (Sundquist, 2021, p. 2).

Yet, the appearance of a potential alternative to the Western-centred institutional channels is a significant development, which might have a long-term impact on the IFS itself. In particular, the success of Beijing's initiatives might depend as well on the connection between the aspirations and policies of the rising power and the demands of the Global South. By promoting the reform of the financial institutions and offering new channels for liquidity, trade and investments, China might not be able to subvert the current order in the short run. However, as Beijing provides new options or promises a larger role in the existing institutions, many actors might join its effort. The net result of such convergence would be the advancement of Beijing's influence and leverage and the weakening of the IFS in its current form.

Consequently, China's strategy towards the financial order cannot be correctly interpreted without considering the "demand side" of the story. South America, and Argentina in particular, offers an insightful (and often neglected) angle from which this aspect of China's rise and contestation can be best appreciated.

Argentina's troubled relationship with the IMF and the search for alternative paths: the role of China

Notwithstanding the early entrance into the main post-WWII institutional bodies and the active contribution in shaping them, the expectations of Latin American countries towards the LIO have been recurrently disappointed (Long, 2018). This troubled record might be connected to the "intermediate position" between advanced and developing economies with which the region has historically been associated (Hurrell, 1990).

In this respect, the experience of many Latin American countries with the IMF throughout the second half of the 20th century is highly exemplificative. Despite being among the main recipients of the organisation's funds, the regional economies have cyclically gone through periods of macroeconomic instability, slow growth, and external shocks, which progressively lowered confidence and led to the questioning of the IMF-sponsored programs (Hutchinson & Noy, 2003). This became all the more true after the 1980s when the Fund took up the role of "crisis manager" for the region (Boughton, 2000), faced with the burden of unsustainable foreign and forced to follow dramatic fiscal adjustment programs. Then, the disastrous effects of the neoliberal turn occurred during the 1990s (when most regional economies had adapted to the policy script identified with the Washington Consensus) irreversibly impaired the relationship with the IMF (Ortiz & Béjar, 2013). This negative record then combined with both internal and international factors – the rise of political leaders that gave voice to the widespread contestation of the orthodox economic policies or the commodity boom fostered by China – and led to the detachment between the Fund and the region during the first decade of the XXI century (Nemiña & Larralde, 2018).

Within this regional framework, Argentina is by far the country that has experienced the most troubled relationship with the IMF and, more broadly, with the international financial community. Although the roots of the Argentinian record might be traced back to the country's political traditions and the trauma of the immediate post-war period[6], the current trajectory is most closely related to the events that unfolded in recent decades. During the dictatorship (1976–1982), the Fund had kept close relations with the militaries, opening several credit lines to the junta, which envisaged economic deregulation and liberalisation as complementary to the "process of national reorganisation" (Kedar, 2013, p. 135). The dependency on the Fund was then strengthened throughout the 1980s when the country – as most of the region – went through the storm of the debt crisis (Nemiña & Larralde, 2018, p. 289). Finally, under the presidencies of Carlos Menem (1989–1999), Argentina underwent an intense transformation of its economic model in a neoliberal sense (privatisations, removal of the restrictions on foreign capital, dollarisation and lowering of all tariffs on trade, among other measures), becoming the poster child of the Washington Consensus (Gerchunoff & Torres, 1996; Kedar, 2013). Throughout the decade, the IMF provided the Argentinian government with technical and financial support (Smith, 1991). The Fund kept providing credit lines to the South American country even after the 1999 election[7] when a spiral of economic, social, and political crisis led Buenos Aires to announce (in December 2001) the impossibility of repaying its foreign debt and, therefore, declare a default (El País, 2001).

These events – and the role played by the Fund and the US – are intimately connected to the path followed by the South American country over the past two decades. In particular, the pattern of engagement established between Buenos Aires and Beijing during the following years can be traced back to the conditions brought by those events.

In 2003, Néstor Kirchner became President with a clear anti-neoliberal platform, promising a renewed role of the state within the national economy and the rupture of the vicious cycle of indebtedness and austerity (Rapoport & Madrid, 2011; Wylde, 2011)[8]. Consequently, closing the dependency cycle with the IMF became the priority of the Argentinian government for both practical and symbolic reasons. Kirchner first managed to reach a deal for the restructuration of the defaulted debt, to which 77% of the creditors adhered (Government of Argentina, 2005). Soon after, he announced the complete repayment of the outstanding debt ($9.81 billion) with the IMF (Kirchner, 2005).

Two circumstances favoured this move. On the one hand, the Argentinian government took advantage of the general climate of resentment against the Fund that, in the early 2000s, was resonating in the whole Latin American region and beyond[9]. On the other hand, Kirchner could count on an increasingly favourable economic context. Indeed, Argentina's economy had started a slow but sustained recovery, driven mainly by the increase in exports and the consequent accumulation of foreign reserves. In turn, this trend was stimulated by several governmental choices – such as the devaluation of the national currency (Gerchunoff & Aguirre, 2004) or the control on the exchange rate (Wylde, 2011) –

[6] Argentina was the last Latin American country to join the Fund (1956), as relations with the US were conditioned by Buenos Aires' prolonged neutrality during WWII (Kedar, 2013, Ch. 1-2).
[7] The IMF approved a Stand-By Agreement (SBA) in March 2000 worth $7.2 billion, lately (January 2001) increased to over $14 billion (IMF, 2001).
[8] Kirchner's approach has been defined as neo-developmentalism (or *neodesarrolismo*), as it implied an active role for the state in stimulating economic growth and industrialisation with an eye to social demands and welfare spending (Grugel & Rigirozzi, 2007).
[9] The Argentinian announcement, indeed, arrived only a few days later Lula had announced the intention to repay all Brazilian outstanding obligations with the Fund (IMF, 2005).

and, above all, by the substantial increase of the commodity prices on the international markets.

In this conjunction, Beijing started to play a crucial role. After recognising China with the market economy status (Foreign Ministry of the People's Republic of China, 2004), Argentina's export to the Asian market grew exponentially. By the end of Kirchner's government, China already came to absorb almost 10% of Argentina's outflows; in 2003, this figure was below 5% (IMF, 2021). Over those years, Beijing also intensified its financial cooperation with the South American country. According to Oviedo (2015), for the first time in 2007, Chinese direct investments surpassed the Argentinian outflows to the Asian country.

China's role became all the more prominent during the following presidencies of Cristina Fernández de Kirchner (2007–2015). Most importantly, however, the relationship grew progressively more asymmetrical. The portfolio of the Argentinian export remained limited to very few products – mainly (over 65%) soybean and its derivates – while the range and value of the Chinese import continued to rise. Over time, Buenos Aires started accumulating large deficits with Beijing, intensifying its dependency on the Asian market and progressively deteriorating its financial reserves (Bernal-Meza & Zanabria, 2020; Oviedo, 2015).

Therefore, when the 2008 crisis arrived, Argentina found itself in a weak position due to the disruption of international trade (Nemiña, 2018, pp. 161-162). As a result, with the risk of witnessing a substantial reduction in the main source of foreign reserves (trade surplus), Buenos Aires had to look for alternative means to guarantee its solvency over the short-to-medium term (Nemiña, 2018, p.162). It was in this context that the first BSA (worth $10 billion) between the Banco Central de la República Argentina (BCRA) and the PBOC was signed (BCRA, 2009). Although the swap was never activated, it functioned as a preventive measure to safeguard Argentina's reserves and reassure its trade partners (Brenta & Larralde, 2018, p. 74).

Beyond this conjunctural event, the partnership with Beijing became an integral part of Fernández's strategy of "post-hegemonic financial insertion" – which meant pursuing economic autonomy from the international financial sector and the US-led multilateral institutions (Nemiña, 2018, p. 150). The turning point came in 2014 when Argentina had to face the consequences of its isolation and the challenge posed to the international financial community (Actis & Creus, 2015). That year, the US Supreme Court refused Buenos Aires' appeal against the 2011 sentence of New York's federal judge Thomas Griesa, which had condemned the government to repay the creditors left out from the second swap of sovereign debt (approved in 2010)[10]. Unable to meet this demand, Argentina was again declared in technical default (Scigliuzzo, 2014)[11].

Cut out from the international markets and faced with the deterioration of its foreign reserves (due to the trade deficits), Buenos Aires turned to China as a lender of last resort.

[10] In 2010, the Argentinian government had reached a second agreement with the bondholders affected by the 2001 default. After this deal, only 7% of the original creditors had not acceded the restructuration. This group was composed by the so-called *vulture funds*, specialised in speculative operations on defaulted debts. In 2011, they initiated a legal dispute against the Argentinian government at the New York federal court to reclaim the sums invested (Actis & Creus, 2015, p. 2).

[11] The confirmation of Griesa's sentence created an impasse. By repaying the *vulture funds*, Argentina would have violated the RUFO (Rights Upon Future Offers) clause included during the restructuration process, by which it had committed not to offer better conditions to the remaining bondholders in future negotiations. At the same time, without complying with the sentence, Argentina cannot repay the interests on the restructured debt, as the US mediating agencies were ordered not to process the transactions (Actis & Creus, 2015; Nemiña & Val, 2018).

In July 2014, a second BSA with China (worth $11 billion) was signed (BCRA, 2014). Then, after the country was declared in technical default, the swap mechanism was officially activated by the BCRA (30 October 2014).

Both the timing and context of the agreement are revealing. Indeed, the deal was announced during Xi Jinping's visit to the Argentinian capital, just a few weeks after the Supreme Court's decision. In his meeting with the Argentinian President, Xi stated that "the Chinese side understands and supports the concerns of the Argentine side" over the debt-restructuring process (Foreign Ministry of the People's Republic of China, 2014). Meanwhile, Cristina Fernández highlighted Beijing's role in reshaping the international order along the principles of cooperation and "win-win", upon which Argentina fully converged (Fernández, 2014). Most importantly, the two countries established a Comprehensive Strategic Partnership on that occasion, and a total of 19 deals (worth over $7.5 billion) were concluded (Government of Argentina, 2014).

The credit line opened by Beijing represented a way out for Buenos Aires as its foreign reserves were rapidly declining – when the BSA was activated, they were below $30 billion. Moreover, China's helping hand allowed Fernández's government to keep its inflexible position with the *vulture funds* without compromising with the IMF. In this vein, the Chinese swap offered an alternative for the Argentinian counterpart to the Fund's credit lines.

From the Chinese point of view, the rationale for providing such support to the South American country has been dual. On the one hand, Beijing was interested in guaranteeing Buenos Aires the necessary resources to pay for its import from China directly in RMB – which in turn meant its expansion as an international currency for trade settlement. On the other hand, the increased incidence of the RMB on Argentina's reserves (35% of the total reserves after the activation of the BSA) gave Beijing significant financial leverage over the South American country (Brenta & Larralde, 2018, p. 80). Indeed, the BSA was part of a larger scheme of bilateral cooperation and integration between Buenos Aires and Beijing, which by the end of Fernández's mandate had expanded into particularly strategic sectors (infrastructure, space technology, nuclear energy) where Chinese companies gained a prominent position (Government of Argentina, 2015).

Finally, the long-term impact of the Chinese BSA can be appreciated by referring to the experience of Fernández's successor, Mauricio Macri. During the presidential campaign, Macri had been particularly critical of Fernández's partnership with Beijing, promising a substantial rapprochement with Western partners (Busso, 2017). Once in power, however, he had to face the reality of Argentina's dependency on Chinese capital. Soon after the election, Macri sought new resources from Beijing to implement one of his first and most significant policy moves – the relaxation of the controls on the foreign exchange rate – and signed a supplementary agreement to the 2014 BSA, which allowed Buenos Aires to swap 20 billion in RMB into dollars (BCRA, 2015). A few days after Macri's inauguration, this decision symbolised the continuity of the relationship with Beijing despite the ideological and partisan change at Casa Rosada. In addition to that, in 2017, the swap with China was renewed under the same conditions (BCRA, 2017).

The leverage gained by Beijing is also evident from another episode. Before the elections, Macri had criticised the lack of transparency inherent in the deals signed by Cristina Fernández during her last year in power. These criticisms were the object of a formal letter sent to the Chinese ambassador in Argentina, Yang Wanming, in which the then-candidate Macri speculated on the constitutionality of those arrangements and promised to inspect them closely in case of electoral success (Curia, 2015; Diálogo Chino, 2015).

However, as argued by Bernal-Meza and Zanabria (2020, pp. 129-130), once in power, the new Argentinian President found out that a cross-default clause was included in the

Chinese deals. The suspension of one of them, in other words, would have automatically interrupted all the other projects as well. Therefore, when Macri's government attempted to halt two of the ongoing projects – in particular, the construction of two hydroelectric plants in the Southern province of Santa Cruz – it found that its room for manoeuvre was tight. Indeed, in addition to the financial leverage, Beijing also seemed prepared to exploit the commercial asymmetry with Buenos Aires. For instance, throughout Macri's first year in power, China dropped its purchases of soybean oil to put additional pressure on the Argentinian counterpart (Centenera, 2017; LPO, 2016).

Ultimately, the combined effect of Argentina's financial and commercial reliance on Beijing led Macri to – at least partially – retrace his own steps. During his visit to Beijing in May 2017, Macri signed several new deals with Xi Jinping and some of the previous contested arrangements were reactivated (Fontdeglòria, 2017). For instance, the two parties convened on a joint project worth almost $400 million for the construction of a solar power plant in the Argentinian province of Jujuy (Ministry of Foreign Affairs, International Trade and Worship of Argentina, 2017b) and agreed to speed up the renewal of the Belgrano Cargas railway and the construction of two nuclear reactors (Ministry of Foreign Affairs, International Trade and Worship of Argentina, 2017a). Moreover, Macri expressed his support for the Belt and Road – whose launch occurred on that occasion – and the intention to adhere to the Asian Infrastructure Investment Bank (Government of Argentina, 2017).

Meanwhile, as his main foreign policy goal was re-establishing ties with the Western institutions and the international financial system, Macri strongly pursued the reactivation of the relationship with the IMF and sought the approval of the US government to accede to a new SBA with the Fund. In the end, the largest program ($50 billion) in the organisation's history was approved in 2018 under such conditions as a substantial fiscal adjustment and the reduction of the country's inflation rate (IMF, 2018).

The deal represented a radical turn in comparison to the trajectory followed by the previous governments and marked the return (or the attempt thereof) to the international capital markets (Bernal-Meza & Zanabria, 2020, p. 128). Macri's turn, however, could not escape the pattern that had emerged over the previous decades and the role assumed by Beijing. Indeed, during the G20 summit of December 2018 held in Buenos Aires, Macri and Xi Jinping signed a supplementary agreement to the 2017 BSA. The deal expanded the swap mechanism for an overall amount of $19 billion – one of the largest ever signed by Beijing – which represented over one-third of Argentina's foreign reserves (Brenta & Larralde, 2019, p. 27).

Nevertheless, the agreement contained a new, restrictive clause. Article 5 prescribed that, during the entire period of validity of the swap mechanism, Argentina had to report to the counterpart the advancements made with the SBA, and in case the deal with the IMF had to "be cancelled or suspended for any reason, no new drawing or renewal requests from BCRA would be accepted by PBOC" (BCRA, 2018). This clause signalled both the priority assigned by Macri to the relationship with the IMF and the intention to avoid the further extension of Beijing's financial leverage.

Overall, Macri's experience is particularly indicative. The Argentinian President sought a rebalancing of the asymmetrical relationship with the Asian power by restoring the ties with Washington and the Western-led institutions. However, he found his options constrained by the course of action followed by the previous administrations. Either for necessity or choice, the *kirchnerista* governments had to rely heavily on the Chinese partner. The strength of these ties – particularly, but not only, the financial ones – is testified by Macri's pragmatic decision to keep the dialogue with Beijing open and alive. In turn, this dynamic gives a clear sense of how Chinese policies, although not subversive in the short term, can act as powerful tools of influence over the medium-to-long period.

Conclusion

The first consideration that can be drawn from the previous discussion refers to how China has employed the currency swaps. The Argentinian case seems to confirm the dual rationale that underlies most Chinese BSAs. On the one hand, Beijing was interested in supporting Argentina's short-term liquidity. This meant guaranteeing Buenos Aires the necessary resources to pay for its imports and do it directly in RMB – which in turn was functional to expanding the currency's international use. On the other hand, Beijing aimed to position itself as an alternative lender of last resort to the Western partners and, in doing so, gain leverage on the South American country over the longer term.

Most importantly, the record of the Sino-Argentinian partnership can provide a tentative answer to the two questions raised at the beginning of this paper. First, do Chinese initiatives offer an alternative for other actors? The case of Argentina suggests an affirmative answer. As we have seen, a diverse set of factors – the troubled past with the IMF, the dramatic events of the 2001 default, and the political choices made by the Kirchner and Fernández governments – had pushed the South American country to the margins of the international financial system. Then, when the restricted access to the international capital markets combined with an economic slowdown, the Chinese swaps represented for Argentina an option to ensure foreign reserves and liquidity and a mechanism to guarantee foreign trade payments; in other words – and under those specific conditions – an alternative to the IMF and its financial and technical support.

Thus, the Argentinian case provides a revealing insight into the demand side of Beijing's initiatives: the contestation of the current financial architecture is not exclusively related to China's strategy and ambitions but also to the agency of other dissatisfied actors. For countries like Argentina, isolated – by choice or imposition – from the international financial system and its institutions, cooperation with China can be perceived as a viable alternative to secure their financial position. Needless to say, this single case does not allow any generalisation, and further research is needed to expand the sample and verify the reliability of the above reflections.

Secondly, and relatedly: do these initiatives represent an attempt by Beijing to undermine the international financial system and lay the foundations of an alternative structure? There seems to be no willingness in the Chinese strategy to replace the current system in the short term. Instead, China has constantly attempted to present its initiatives as complementary to the existing framework. In the Argentinian case, this is testified by the pragmatic attitude maintained by Chinese authorities regarding Macri's requests when the Article 5 clause (introduced by the Argentinian President) was accepted, and the country's return under the IMF's umbrella did not prevent the renewal of the BSA with Beijing.

In this vein, the record of the Sino-Argentinian partnership confirms that the BSAs do not bring disruptive effects on the financial architecture in the short run. Nevertheless, our case study also suggests two elements that might yield long-term consequences for the current order and its institutions. On the one hand, as already mentioned, the proliferation and eventual success of Beijing's initiatives are related to the position of those actors from the Global South – like Argentina – that are excluded from or openly contest the current IFIs. These countries might be encouraged to reach out to China to seek alternative financial tools, which in turn can contribute to weakening and delegitimising the current institutions. On the other hand, independently from their immediate impact, the use of the BSAs to support partner countries during liquidity crises provides Beijing with powerful leverage and sensibly increases the counterparts' dependency on Chinese financing; in turn, this might entail strengthening Beijing's international position.

Overall, both elements invite caution against any simplistic assessment of China's initiatives, as they carry the potential to transform the international financial framework in the next future. In turn, this insight might also be applied to other aspects of Beijing's interaction with the LIO. Indeed, while Chinese contestation might appear (and be deliberately presented) as anything but radical or revolutionary, its long-term transformative power for the international order should not be underestimated.

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