From Boom to Boomerang: Capitalist Crisis in Turkey, Brazil, India, Russia

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Since mid-January, there has been a new scare story in the development of the global crisis after 2008: after the banking crisis, the subsequent recession and the euro-crisis it is now currency turmoil in the "emerging markets" that is leading to fears of a new global economic slump. After years of being the recipients of large capital inflows, these countries are now seeing a reversal of the flow, a scenario very reminiscent of the Asia - Russia crisis of the late 1990s. That led to the insolvency of a series of "tiger economies? and, ultimately, to the collapse of Argentina. After the recovery from that crisis, and in the wake of the loose monetary policy of the US Federal Reserve, there was a boom in the ?emerging economies? that lasted several years and was only marginally slowed by the crisis in 2008. Indeed, after that, it even became an essential engine of the world economy. That boom has obviously been stalled for a year and this is now threatening to become an accelerator of a global crisis.

Currency turmoil
Superficially, the most prominent feature pointing in this direction is the collapse of several currencies, especially those of Turkey, India, Indonesia, Brazil, Argentina, South Africa and Russia, to name only the most important (that the Ukrainian hryvnia is currently in free fall, is not surprising). Here, the most dramatic fall is certainly the Argentine peso, whose value has been halved in just one year. Given the particular circumstances of its "recovery" from the last collapse, at the beginning of the millennium, the flight of capital from there is not particularly surprising, but the economic downturn there also exacerbates the problems of Brazil, for which Argentina is an important market.

What is far more disquieting for the markets is the situation in Turkey, which, until recently, figured as a top candidate for the "emerging market" system. There has been a depreciation of the exchange rate between the Turkish lira and the euro of almost 40 per cent (from 2.3 lira per euro to more than 3.2) in the last year. The dramatic increase in the central bank interest rate from 4.5 to 10 per cent in January could not bring the rate back below 3:1.

With the recent political developments in Turkey, the downward pressure has even accelerated. This is seen as all the more menacing because the foreign currency reserves of Turkey have been reduced to only about one-third of the country's external financial obligations, the lowest ratio of all countries affected by the currency turmoil. Even Argentina has three times as large currency reserves as liabilities, in the worst case these could be used to pay off debts. No wonder Prime Minister Erdogan talks of an international conspiracy, but, with regards to the Turkish lira, hedge funds are simply doing what they are bound to do to make speculative profits with a depreciating currency.

These two particularly troubled economies are joined by Indonesia, whose currency has lost 33 per cent of its value against the euro, even though this has been stabilised since December. After these, come the other ailing currencies, each having lost about 25 % of its value; Brazil, Russia, India and South Africa.

Hedge funds

In this context, since the middle of January, there has been targeted speculation by hedge funds, similar to what was reported during the euro crisis. Instead of pursuing their supposed purpose of hedging real economic transactions to reduce the impact of currency fluctuations, they are making massive options transactions. In these, the targeted currencies are sold ?virtually?, in the form of securities, that are only really paid for later, at lower exchange rates, thereby generating huge ?arbitrage? profits. Because of the volume of such sales, against a background of falling currency values, such bets on further devaluation become self-fulfilling prophecies.

Among the hedge funds are the big institutional investors who are getting out of the "emerging market" funds, which, as a result, have already experienced as much as 30 per cent devaluations this year. In the first two months of this year, it is estimated, as much capital has flowed back into western centres from the emerging markets as in the whole of last year. Currently, the rate is calculated at US$7 billion per week and this has long outweighed the inflows. A third of all the capital invested in emerging markets since the end of 2008 has been pulled back within the last three months.

In the eyes of bourgeois economic commentators, the policies of two major central banks; the American (the Federal Reserve, ?the Fed?) and the Chinese (the People's Bank of China, PBOC) are playing central roles in all this. While the Fed had been flooding the world markets with dollars since the financial crisis, it is now ?curbing? its loose monetary policy. The policy of quantitative easing, QE, guaranteed the liquidity of banks and investors in the imperialist centres, allowing them to continue to seek profitable investments. This meant they could take cheap loans in dollars which they then invested in emerging markets where there were much higher yields in the respective currencies.

This affected both speculative "carry trades", which simply benefited from the enormous difference in interest rates, and investments through banks and funds "on the spot". Faced with a looming interest rate reversal and increased opportunities for profitable investment in the imperialist centres, the profits are now being taken and transferred back into dollars or euros. The "recovery" in the US, Japan and EU is at least enough to make investments there profitable again.

In addition, the capital inflows had offset the negative trade balance on the capital account in many of the emerging countries. Now, the capital outflow is bound to have an immediate negative impact on currency values. This is the case with all the currencies listed above and contrasts with countries like South Korea or Mexico whose exports have risen in response to the recovery, while the trade balances of countries like Turkey and Brazil have crashed. Suddenly, the "analysts" are now discovering that the emerging markets, which until recently were still being praised as the "future of the world economy," all have "economic imbalances", infrastructure and regulatory issues, democracy and corruption issues, etc. Today, all these things are used to justify the flight of capital away from these countries, and all the hype about the new favourites. For the other emerging markets, the IMF is again ready with "good" suggestions for "reforms", which consist mainly of social cuts and authoritarian attacks on the rights of the workers.

The China factor

The weight of China and of the PBOC can be clearly seen as a new factor in the world of the "markets". Unlike the other countries, which are trying to defend their currencies with desperate interest rises and other support measures, the POBC is doing the opposite; since the beginning of January they have been selling yuan, that is, forcing a devaluation of their own currency. Here we come to the centre of the problem of the possible bursting of the QE bubble. Although the above-mentioned emerging markets benefited from strong capital inflows as a result of the QE liquidity, this was, nonetheless, negligible in relation to the mass that flowed into China. Foreign capital flowed into China mainly through banks in Hong Kong, Singapore and Australia. The Hong Kong banks alone have made loans to mainland China equivalent to 148 per cent of Hong Kong GDP. In 2008, the ratio was just 18 per cent.

The outstanding loans payable to Chinese banks now stand at US$14 trillion and have overtaken the corresponding figure for commercial banks in the USA! As a result, property prices in China have doubled and there has been the undeniable growth of a shadow banking sector. Although the Chinese government fuelled all of this with the world's largest stimulus package in 2009-10, for more than a year, and especially since the near collapse of several major Chinese banks last year, it has steered policy in exactly the opposite direction.

Whatever measures are taken and whatever the prospects of success of this retrenchment programme, the consequences will be felt by China's trading and financial partners in the emerging markets. On the one hand, exports to China will go down for commodity exporters such as Brazil, Chile and Venezuela. On the other hand, the leverage effect of investments in emerging markets, most of which were connected to the China business, will be lost. This applies not only to banks in Hong Kong and Singapore, but in all emerging markets.

Stagnation risk

In all the affected countries, capital outflows result in credit crunch and currency depreciation, rising interest rates and sharply rising inflation. This affects primarily the poorer and middle classes who face sometimes dramatically increased prices for imported consumer goods or are no longer able to pay off their debts when interest rates rise. Richer population groups react by moving their assets into a "hard currency". In these conditions of declining consumption and domestic investment, driven by private indebtedness, and declining foreign direct investment, it is clear that these countries threaten to sink into the spiral of stagflation and are already tending towards recession.

Unlike in the emerging markets crisis of the late 1990s, however, this is not taking place in a situation of high dollar debt in the crisis countries. As we have seen, apart from Turkey, the crisis countries hold strong foreign exchange reserves. The problem is rather the enormous private debt, mostly in local currencies, owed to local and foreign banks, fed from international investment capital and multiplied, of course, by the leverage effect.

As in the euro crisis, this will ultimately constitute a "banking crisis" from which the banks engaged in business with the emerging markets must be "saved" through the actions of the states concerned. From this it is clear that the analysts' view that there will not be a repeat of the Asia crisis because of the high dollar reserves is too short-sighted. States that step in to save the banks will find that, because of the scale of the rescue operation, they will be forced into insolvency just as quickly as happened with the direct dollar debts. By comparison with Greece, this time much larger states will be "saved" by the agencies of imperialism such as the Troika and IMF.

As the case of Ukraine has already shown, in such desperate economic situations, they can even organise mass support for imperialist crisis management under the slogans of struggle against "all corrupt politicians" and for "Western democracy" - and with the help of fascist shock troops. Each in their own way, the protests in Brazil, Bulgaria and in Venezuela show how fast movements that do not penetrate to the root causes of the crisis and do not have the organised working class at their core, can be ?turned? into ultimately pro-imperialist, nationalist or pro-neoliberal instruments.

Ukraine and Russia

The conflict with Russia over Ukraine shows another effect of the new phase of the crisis: the new imperialist powers, China and Russia, who had been winners, are now feeling the effects of the crisis and are mainly challenged by a rebounding dollar empire. In particular, US imperialism is seeking to exploit the current economic weakness of Russia as the weakest of the new imperialist rivals in various international hot spots. In fact, all economic indicators in Russia are pointing down and with the recent political crisis the capital outflow has also accelerated dramatically. The Western sanctions policy could thus actually lead the Russian economy to the brink of collapse, not without negative effects on the standing of the EU economy, already facing the threat of deflation. Should a combination of Russian bank failures, collapsing export markets and declining prices for industrial products push the EU into a deflationary spiral, analogous to Japan in recent decades, the euro crisis would very quickly become acute and there would be no more talk of economic recovery in the eurozone.

In the Ukraine, the US, with its ?Fuck the EU? approach, was the driving force that sought to challenge Russia in its very own backyard. In this respect, the current phase of the crisis is also one in which the inter-imperialist struggle for the redivision of the world into spheres of influence is taking on a more intensive form, economically, politically and sometimes militarily as a "new Cold War?. One thing is certainly clear; the US empire is striking back. To that extent, the strategy of the Russian government is also clear; what Russian imperialism lacks in economic strength, which threatens it with a crash, will be made up for by military strength. In this, the negative economic consequences, which will primarily affect the EU, have been consciously taken into account in order to drive a wedge between the western challengers. The Chinese news agency Xinhua was right when it observed that "The West believed it already had a great victory in the geopolitical struggle. But things turned out differently."

It is precisely the crisis in the emerging semi-colonies and the challengers to the old powers that shows that we are entering a period of increased imperialist struggles to redivide the world; from imperialist intervention into conflicts, protest movements and civil wars, to direct military intervention, perhaps even to direct military conflict. One hundred years after the failure of the international workers' movement in the face of the outbreak of the First World War, the main threats to the peaceful, social and environmental development of humanity are posed by imperialist monopoly capitalism and its crises. Threats that only the revolutionary organised international working class can oppose.
