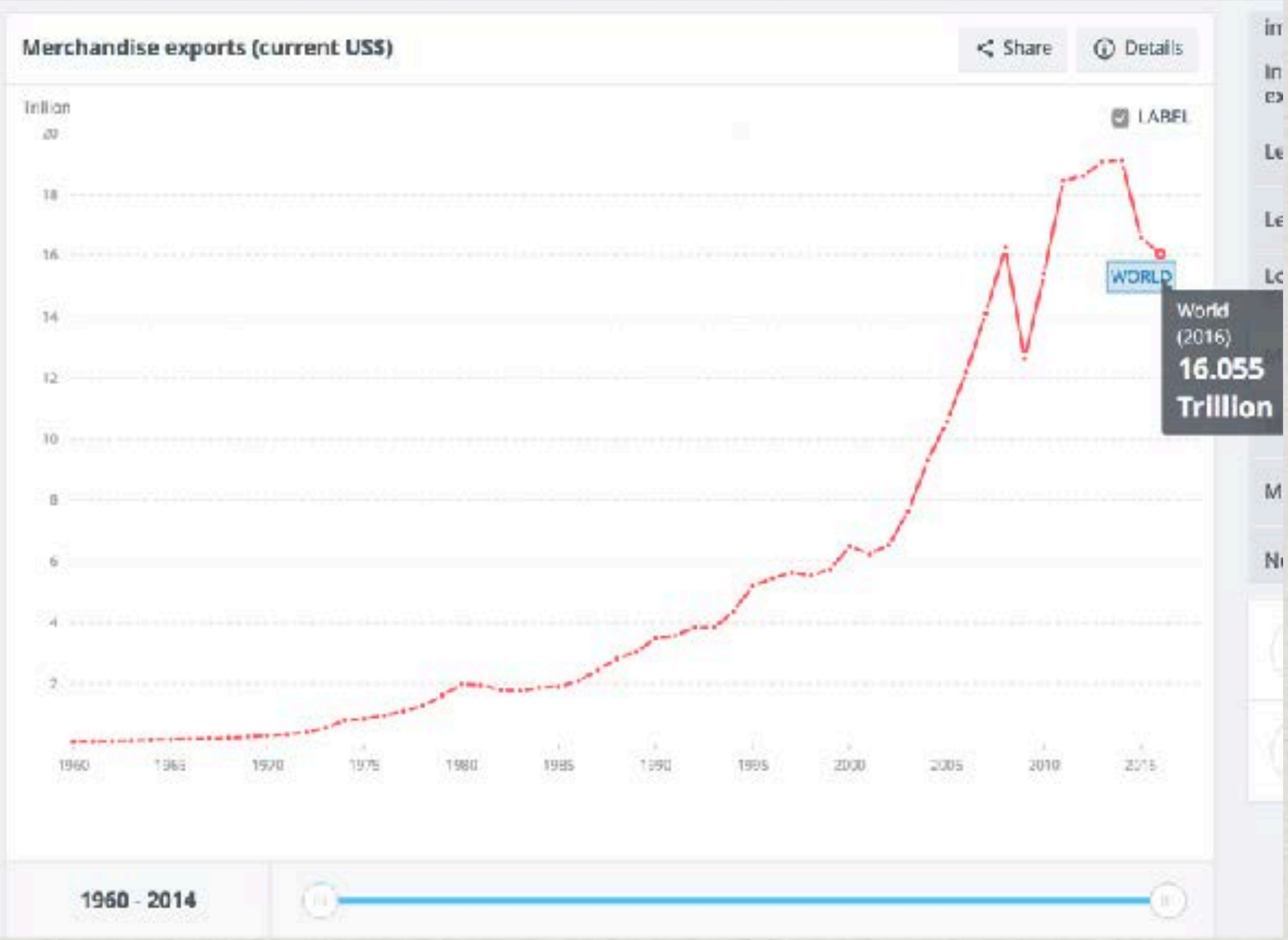
GLOBAL TRADE AND FINANCE

International Trade

- If international trade globalization has proceeded globalization in other areas, then patterns are very important for understanding international trajectory(s)



International Trade

- Before WWII, trade was largely a bilateral matter, subject to begger thy neigbor policies (reciprocal tariffs)
- After: GATT, then WTO
  - Trade managed in global and regional (EU, NAFTA) multilateral arrangements with adjudication mechanisms
  - Aim: reduce barriers for all participating countries (MFN principle) trade to allow <u>comparative advantage</u> to raise all boats
  - Problem: inequalities produce enduring trade deficits

International Trade

- Trade is more than merchandise
  - Services
  - Intellectual property
  - Tourism
  - Energy (oil and other carbon-based fuels)

International Trade

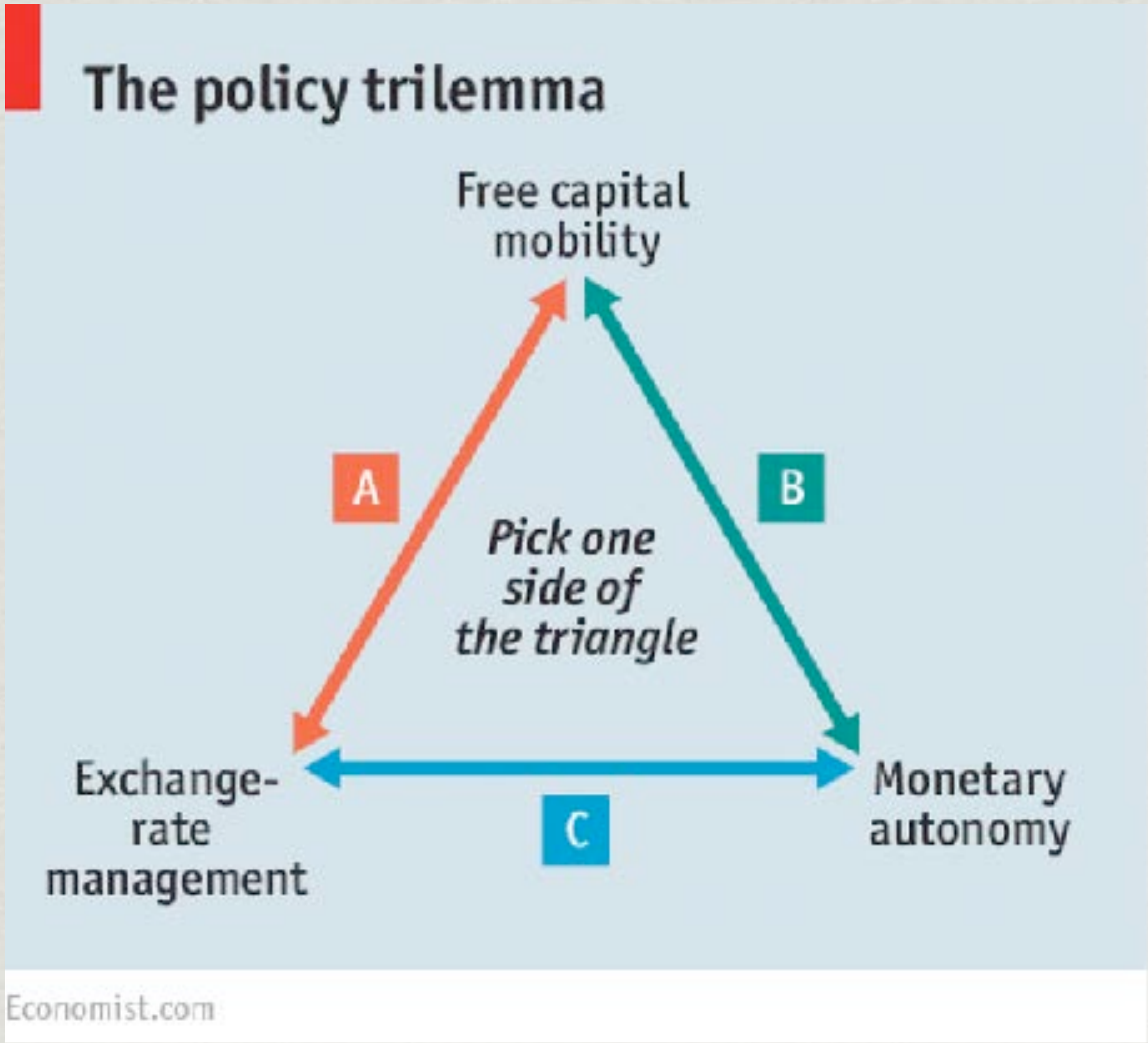
- Governance managed largely multilaterally
  - WTO adjudication based on massive multilateral agreements (trade rounds)
  - Regional trade agreements and Free Trade Areas/Agreements
    - NAFTA
    - TPP
    - TTIP
  - Bilateral agreements
    - US-Australia FTA

International Finance

- Some numbers
  - Annual International trade flow 2016 (e + i): ~$32.3 trillion
  - Annual International cross border capital flow 2012: ~4 trillion
  - **Daily** flow of currency (trading):~$5 trillion

International Finance

- Globalization of finance comes at the cost of sovereignty
- The impossible trinity
- Country fixes its exchange rate against the American dollar and is open to foreign capital.
- To bring down inflation central bank sets interest rates above those set by the Federal Reserve -> attract foreign capital in search of higher returns
- That would in turn put upward pressure on the local currency. Eventually the peg with the dollar would break.



International Finance

- Case study: 1997-8 Asian Financial Crisis
  - Localized currency and financial crisis in Thailand spread to other Southeast Asian countries
  - By the fall of 1997, the contagion extended its reach to South Korea, Hong Kong and China. A global financial meltdown had been ignited.
  - In 1998, Russia and Brazil saw their economies enter a free-fall, and international stock markets, from New York to Tokyo, hit record lows as investors' confidence was shaken by the volatility and unpredictability in the world's financial markets.
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- May 14, 1997: Thailand spends billions of dollars of its foreign reserves to defend the Thai baht against speculative attacks.
- July 2, 1997: Thailand devalues the baht. News of the devaluation drops the value of the baht by as much as 20%--a record low. The Thai government requests "technical assistance" from the International Monetary Fund (IMF).
- July 8, 1997: Malaysia's central bank intervenes to defend its currency, the ringgit.
- July 11, 1997: The Philippine peso is devalued; Indonesia widens its trading band for the rupiah in a move to discourage speculators.
- July 18, 1997: The IMF announces that it will make more than a billion dollars available to the Philippines to help relieve pressure on the peso. The IMF action is the first use of its "emergency funding mechanism."
- July 24, 1997: The Singapore dollar starts a gradual decline; Malaysian Prime Minister Mahathir Mohamad accuses "rogue speculators" for Southeast Asia's economic upheaval.
- August 5, 1997: Thailand agrees to adopt tough economic measures proposed by the IMF in return for a $17 billion loan from the international lender and Asian nations; closes 42 ailing finance companies and imposes tax hikes as part of the IMF's insistence on austerity.
- August 14, 1997: Indonesia abandons the rupiah's trading band and allows the currency to float freely, triggering a plunge in the currency.
- Oct. 8, 1997: Indonesia asks the IMF and World Bank for help after the rupiah falls more than 30% in two months, despite interventions by the country's central bank to prop up the currency.
- Oct. 23, 1997: Hong Kong's stock index falls 10.4% after it raises bank lending rates to 300% to fend off speculative attacks on the Hong Kong dollar. The plunge on the Hong Kong Stock Exchange wipes $29.3 billion off the value of stock shares; The South Korean won begins to weaken.
- Oct. 27, 1997: Rattled by Asia's currency crisis, the Dow Jones Industrial Average plummets 554 points for its biggest point loss ever. Trading on US stock markets is suspended.
- Oct. 31, 1997: The IMF agrees to a loan package for Indonesia that eventually swells to $40 billion. In return, the government closes 16 financially insolvent banks and promises other wide-ranging reforms; Nov. 21, 1997: South Korea requests IMF aid
- Nov. 22, 1997: South Korean nationalists criticize the IMF loan request as humiliating. President Kim Young Sam apologies on television to the country for South Korea's economic malaise.
- Dec. 3, 1997: The IMF approves a $57 billion bailout package to South Korea, the largest in history. President Bill Clinton earlier urges "tough medicine" for South Korea.
- Dec. 8, 1997: The Thai government announces that it will close 56 insolvent finance companies as part of the IMF's economic restructuring plan. 30,000 white-collar workers lose their jobs.
- Dec. 23, 1997: In an unprecedented move, the World Bank releases an emergency loan of $3 billion, part of a $10 billion support package, to South Korea to help salvage its economy.

International Finance

- Governance
  - IMF
  - Powerful central banks (Federal Reserve, ECB)
  - …?