Lecture 6

Global Trade and Neoliberalism
Global Trade & Neoliberalism

I. World Trade
II. US in a Bind
III. Neoliberal Order
IV. Anti-Liberalism

» Moving to the global scale
I. World Trade

A. Trade Basics

B. Trade Institutions

C. Globalization
Why trade?

- **Trade & difference**
  - Different products/specialties
    - Better qualities
  - Different production methods
    - Lower costs (& better quality)
    - Lecture 8

- **Trade & development**
  - Large world markets
  - Keep down wages & consumption
    - Lecture 4

- **Trade & production**
  - Global supply chains
    - Lecture 9
Trade balance

- Balance of trade = Exports - Imports
  - National account
  - Countries want positive balance
    - Or money flows out
- Can everyone be a net exporter?
  - NO
- Is global trade zero-sum?
  - NO
Exchange rates

- Relative currency values
  - Dollar/Yen, Dollar/Euro, etc.
- Trade balance affects exchange rates
  - Deficit » falling value
  - Surplus » rising value
- Exchange rate affects trade
  - If currency falls: exports up, imports down
  - If currency rises: exports down, imports up
- Exchange rate policy
  - “Devaluation”
Balance of payments

- **Current account**
  - Trade
  - Capital income
    - (profits, interest, rents)
  - Personal income
    - (remittances etc)

- **Capital account**
  - Balance of investment
    - FDI + Portfolio
I. World Trade

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Postwar global institutions

- **Economic**
  - International Monetary Fund (IMF)
  - World Bank
  - General Agreement on Tariffs & Trade (GATT)

  Richard Peet, *The Unholy Trinity*

- **Political**
  - United Nations
From GATT to WTO

- GATT Trade negotiations (‘rounds’)
- WTO, 1995
International Monetary Fund

- Guardian of world money
  - Oversees states’ borrowing & debt

- Lender of last resort
  - When government finances blow up

- Arm of neoliberal policy
  - US controls board of directors
  - Europe appoints CEO
I. World Trade

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C. Globalization
Growth in world trade
US more globalized

America's Growing Globalization
(Exports and Imports as a share of GDP, 1900-2006)


Figure 1
Imported Inputs as a Share of Total Inputs
Total Manufacturing and High-Tech Sectors

Source: Bardhan, Jaffe and Kroll, Globalization and a High-Tech Economy, forthcoming.
What is globalization?

- Economic
  - Spread of trade
  - Spread of production & finance
    - *Parts 3 & 4 of course*

- Political
  - Neoliberalism - rewriting the rules
    - *Today. See D. Harvey, Short History of Neoliberalism*

- Geographic
  - Shifting economic patterns, political power
Global Trade & Neoliberalism

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» Moving to the global scale
II. US in a Bind

A. •Trade Deficits

B. Industrial Shrinkage

c. Dollars and Debt
Trade Gap Widens

Balance on current account as a percentage of GDP, seasonally adjusted

Source: Bureau of Economic Analysis via Haver Analytics

US Trade Deficit is largest in the world

Every $1 billion in trade deficit equals 20,000 American jobs lost

Copyright Bud Conrad and Macanalysis June 2005
Why US accepts deficits

- Hegemonic role vis-à-vis East Asia
  - Long-term development policy

- Balance wheel
  - Inflow of foreign capital
    - See below
II. US in a Bind

A. Trade Deficits

B. •Industrial Shrinkage

C. Dollars and Debt
US manufacturing in decline

- Steady decline as % of GDP
- By 2000, % smallest of the major economies
Is US de-industrialized?

U.S. Manufacturing Output, 1980-2006
(Monthly index, 2002 = 100)


Source: Federal Reserve Board

More is less
G7 manufacturing, 1970=100

And we’re not alone
Should we panic?

- Japan in 1980s
- East Asia 1990s
- China 2000s
What we're still good at

US Aerospace trade

A 'sleeper' market: film exports to the United Kingdom and Europe - US exports of film and television programs find niche in Europe - Industry Overview

*Business America, Jan 11, 1993 by Edward Deutsch*

The U.S. film and television industries, which directly employ more than 250,000 workers, now generate a $4.5 billion trade surplus for the United States—second only to that of the aircraft and aerospace industry. Due to an expanding programming market

Next level fun.
iPod touch. Now starting at $199.
Learn more
II. US in a Bind

A. Trade Deficits

B. Industrial Shrinkage

c. • Dollars and Debt
US current accounts deficit

The Current Account Deficit of the US is huge

Cumulated Current Account or International Debt of the US

US debt is 40% of GDP
Decline of the dollar

Euro beating up the U.S. dollar

Trade Weighted Exchange Index: Broad
(Index January 1997=100)
Source: Board of Governors of the Federal Reserve System

Dollar v basket of currencies
International Balancing Act

- Dollar devaluations
  - Dollar float, 1970
    - Hurts Japan & Germany
  - Plaza Accord, 1986
    - Hurts Japan, » 1989 crisis
    - East Asian ‘peg’ helps East Asia
    - Japan shifts to East Asia
  - Help US recoveries, 1970s and 90s
- Yen devaluation
  - Reverse Plaza Accord, 1996
    - Hurts East Asian ‘pegged currencies’
    - Precipitates Asian crisis 1996-97
  - Helps Japan, hurts US
    - US deficit rises
    - Crisis of 2000-02
IMF sounds alarm on U.S. debt

Global economy threatened, report contends
By Elizabeth Becker and Jonathan L. Alter

WASHINGTON — With its rising budget deficit and ballooning trade imbalance, the United States is running up a foreign debt of such magnitude that failure to take corrective action could have serious long-term consequences for the global economy, according to a report released Wednesday by the International Monetary Fund.

Prepared by a team of IMF economists, the report sounded a loud alarm about the shaky fiscal foundation of the United States, questioning the wisdom of the Bush administration's tax cuts and warning that large deficits pose "significant risks" for the United States and the rest of the world.

"Without these tax cuts, I do not believe the downturn would have been one of the shortest and shallowest in U.S. history," said John Taylor, undersecretary of the Treasury for international affairs. "The IMF is right. If these twin deficits — of the federal budget and the trade deficit — continue to grow, you are increasing the risk of a day of reckoning when things can get pretty nasty," said Fred Bergsten, director of the Institute for International Economics in Washington.

Administration officials have rejected the report's conclusions, saying the United States' surging external debt is no cause for alarm. But a number of economists and policy makers have expressed concern about the U.S. debt, which has risen to more than $5 trillion and is expected to reach $7 trillion by the end of the decade.

The report warns that the United States' net financial obligations to the rest of the world could equal as much as 40 percent of its total economy within a few years — an unprecedented level of external debt for a large industrial country, according to the Fund, that could place it with the value of the dollar and international exchange rates.

The dangers, according to the report, are that the United States' voracious appetite for borrowing could push up inflationary interest rates and slow down global investment and economic growth.

"Higher borrowing costs abroad would mean that the adverse effects of U.S. fiscal deficits would spill over into global markets and output," said the report. Where Home officials dismissed the report as alarmist, saying that President Bush has already moved to restrain the budget deficit by $200 billion over the next five years. The deficit reached $317 billion last year, a record in dollar terms but still as a share of the total economy, and it is expected to exceed $400 billion this year.

Note: Negative figures indicate positive balance and vice versa.

U.S. OVERSEAS LIABILITIES AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT, 1959-1999

Outflow weakens the dollar
US living off foreign capital

- US covers the payments deficit by borrowing
- Japan & China buy T-bills
  - ~50%
- And corporate bonds
  - ~25%
- Will it last?
  - When do investors bail?
Global Trade & Neoliberalism

I. World Trade
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III. • Neoliberal Order
IV. Anti-Liberalism

Moving to the global scale
III. Neo-Liberal World Order

A. Neoliberalism
B. Los Chicago Boys
C. The IMF Hammer
D. The Rule of the WTO
Classical liberalism: free trade

- Everyone gains
  - Lowest prices to consumers (& business)
  - Widest range of goods

- Economies of specialization
  - Comparative advantage
  - Every country finds its niche

- Ricardo (1830s), Ohlin & Samuelson (1940s)
Postwar Liberalism: Export-led growth

- Develop by exporting
  - Take advantage of lower costs (labor, land)
  - Build up economies of scale, specialization

Neo-liberalism: as theory

- Beyond Free Trade & Exports
  - Radical theory
    - Von Hayek, Strauss, Friedman,
  - Rejection of postwar liberalism

- Three Ds of Neoliberalism
  - Depend on markets
  - Dismantle government
  - Defeat workers

  - David Harvey, *A Short History of Neoliberalism*
Neoliberalism:

as policy

- Global policy shift > 1975
  - Dismantling social policies & government regulation of 1930s-60s

- Slaying the beasts…
  - Anti-New Deal in US
  - Anti-Social Demo in EU
  - Anti-ISI in Global South

"I don't want to abolish government. I simply want to reduce it to the size where I can drag it into the bathroom and drown it in the bathtub." -- Grover Norquist
Neoliberalism: as politics

- Political project of...
  - Global north: US & EU

- Key political figures
  - Reagan & Thatcher
  - Anglo-American ‘model’

Globalization created by nation-states
Say one thing, do another

“Fiscal Conservative”

“Fiscal Conservative”

“TAX & SPEND LIBERAL”

“Fiscal Conservative”

$200+ BILLION DEFICIT

$300 BILLION DEFICIT

$482 BILLION DEFICIT

MY FRIENDS, YOU’LL BE PLEASED TO KNOW I’M A FISCAL CONSERVATIVE.
III. Neo-Liberal World Order

A. Neoliberalism
B. •Los Chicago Boys
C. The IMF Hammer
D. The Rule of the WTO
Chile 1973

- Coup d’etat against President Allende
  - *The other 9/11*

- Pinochet takes power
  - US approval (Kissinger)
  - Assassination of Letelier
Los Chicago Boys

- Free Market Prophets
  - Chicago Economics: Milton Friedman, Robert Bork, etc.

- Advisors to Pinochet
  - Harvard in Mexico (Salinas 1988)
  - Berkeley in Indonesia
Chilean Model

- Repression
  - Mass jailings, 1 million expatriates
  - Breaking unions, left parties
- Privatization
  - Selling infrastructure
- Exports
  - Fruit, wood, etc.
Neoliberalism at home

- Bankruptcy of New York City (1973)
  - First local bankruptcy since 1930s
  - 2nd largest budget in US

- Takeover by bankers
  - William Simon, Sec’y of Treasury under Nixon

- Fiscal disciplining of NYC
  - Cut city services
  - End free education
  - Undercut unions

David Harvey, *Short History of Neoliberalism*
What about California?

- **GOP coup d’état**
  - Prop 13, 1978
  - Recall & Schwarzenegger, 2003
  - 2/3 budget rule

- **Tax cuts & deficits**
  - Bankrupt local govts.
  - Pay to play (tuition!)

- **Decline in social services**
  - Schools, colleges, UC
  - Growth of prisons

Arnold was a huge fan of Milton Friedman.
See 1990 video on www.alexartworks.com/blog/
III. Neo-Liberal World Order

A. Neoliberalism
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D. The Rule of the WTO
IMF intervention

- IMF ‘adjusts’ country debt
  - Manages debt-crisis
  - Sets terms for more loans

- IMF as bludgeon
  - Forces governments to change policies
  - Neoliberal hammer

- 1980s debt crisis & “structural adjustment”
Rules of ‘Structural Adjustment’

- Free trade
  - Lower tariffs, etc.

- Freedom for capital
  - Repay creditors (banks)
  - More foreign investment

- Freedom from government
  - End public subsidies
  - Cut taxes
  - Privatize public companies
III. Neo-Liberal World Order

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Free trade frenzy

Figure 2: Worldwide Growth of Regional Trade Agreements, 1948-2006
(Source: WTO Secretariat)
World Trade Organization

- Free trader triumph (1998)
  - China joins 2001
- WTO settles trade disputes
  - Can overturn national laws that interfere with trade
    - E.g., dolphin-safe tuna, MME, toxic burning
Freeing Property

- ‘Intellectual property rights’
  - Copyrights, patents & trademarks

- Freeing capital
  - ‘Free investment’ rule
  - NAFTA & EU have it
  - Not included in WTO
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A. East Asian Rebuke
B. Southern Rejection
C. Global Revolt
D. Meltdown
Blowback from East Asia

- IMF resisted
  - Thailand, Indonesia, Korea
    - darlings of IMF crashed
  - Malaysia, China
    - ignored IMF & did well
Defense of East Asian model

- **Studies**
  - Chalmers Johnson
  - Alice Amsden

- **Economists vs. IMF**
  - Joseph Stiglitz
  - Jeffrey Sachs
  - Paul Krugman
Korean revolt

- Against conservative (neoliberal) President Lee Myung-bak
- Protests over US meat imports
IV. Anti-Liberalism

A. East Asian Rebuke
B. Southern Rejection
C. Global Revolt
D. Meltdown
Latin America vs. NAFTA

- Zapatistas
- Chavez’s ‘bolivarian revolution’
- Latin American trade agreements
US hypocrisy

- Tariffs
  - Clothing, textiles, etc. (ended 2005)
- Subsidies
  - Agriculture (renewed in 2004, 2008)
- Trade busters
    - US can break ‘unfair’ advantage & open up foreign markets
- Quotas
  - Auto, steel (renewed in 2002), clothing (2005 vs China)
  - Byrd anti-dumping amendment of 2001

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Hypocrisy condemned at IMF meeting

Even financial leaders call U.S. subsidies unfair

**New York Times**

WASHINGTON — For all the public calls toward the producers outside, those in charge of the World Bank and the International Monetary Fund offered few apologies this weekend for the many failed attempts to increase prosperity in the world’s poorest countries.

Reflecting the views of their biggest shareholders — governments of the world’s richest countries, led by the United States — both institutions continued to push poor countries to take steps to stimulate private investment, improve financial management, and embrace free trade.

But at the two institutions’ annual meetings last Sunday, people inside and outside the elite gatherings attached what some described as a more hypocrisy of the rich countries than their own continued barriers to imports, particularly of agricultural products and textiles.

James D. Wolfensohn, president of the World Bank, accused wealthy countries of “shunning” $1 billion a day on farm subsidies that often have devastating effects on farmers in Latin America and Africa.

“This is hypocrisy,” said Nicholas Stern, chief economist of the World Bank.

The Bush administration agrees in principle with the goal of reducing subsidies, which encourage overproduction and tend to depress prices, as well as quotas that block imports.

Protectionism in wealthy countries has a disproportionately large effect on poor countries, because the biggest barriers are on farm products and labor-intensive products like textiles.

Promoters had wanted to disrupt the discussions by shouting down the capital. Their efforts failed. But the activists did get a
discussion on the floor of the World Bank and IMF meetings in Washington.

A protester in a gorilla suit cycles past police officers arranged behind a barricade near the World Bank and IMF meetings in Washington.

The Associated Press contribut
Cancun

- 2003 WTO meetings
- Agricultural subsidies central
  - Europe & USA
- Unity of Global South
  - Led by Brazil, India & China
- WTO talks fall apart
IV. Anti-Liberalism

A. East Asian Rebuke
B. Southern Rejection
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Protesting Neoliberalism

- Battle of Seattle, 1999
- G8 meetings
  - Davos, Genoa, etc.
- FTAA Miami, 2003
Radical Islam

- Revolt against the global order
  - Anti-liberal
  - Right & Left anti-liberalism

Retort, Afflicted Powers
IV. Anti-Liberalism

A. East Asian Rebuke
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New WTO order?

- First world ag subsidies under attack
  - Even Canada sues US over corn subsidies

- WTO striking down 1st world restrictions

- WTO backs off on MTB

  - Allows EU to impose sanctions on US
Who’s in trouble now?

- US scolded Asians in 1997…now shoe’s on the other foot
- 2008 financial crisis & deregulation
- Decline of US?
- End of neo-liberal era?

- A SHATTERING MOMENT IN AMERICA'S FALL FROM POWER
- The global financial crisis will see the US falter in the same way the Soviet Union did when the Berlin Wall came down. The era of American dominance is over.
  - John Gray • The Observer, Sunday September 28 2008
- Our gaze might be on the markets melting down, but the upheaval we are experiencing is more than a financial crisis, however large. Here is a historic geopolitical shift, in which the balance of power in the world is being altered irrevocably. The era of American global leadership, reaching back to the Second World War, is over...