Last Week

International Trade Post War – key features

- Rapid growth as Europe, Japan and newly industrializing countries develop and rebuild
- Growth of the MNC
- Built on Free Trade embodied in GATT and later WTO
- Facilitated by containers, technology and the global free trade regime
- Development of Regional Blocs

Regional Trade Blocs

- **The U.S. has signed more than 300 bilateral agreements, and belongs to a number of regional trade agreements (RTA) like NAFTA.**
- **RTAs are often easier to form because fewer states are involved, which means fewer interests to reconcile.**
- **Many economists theorize that RTAs are a stepping-stone to global free trade, by strengthening economic integration between the bloc's members.**
- **However, other economists oppose RTAs as obstacles to *world* free trade, because they proliferate tariffs and preferences between the bloc's members that become durably institutionalized.**

Trade Blocs:

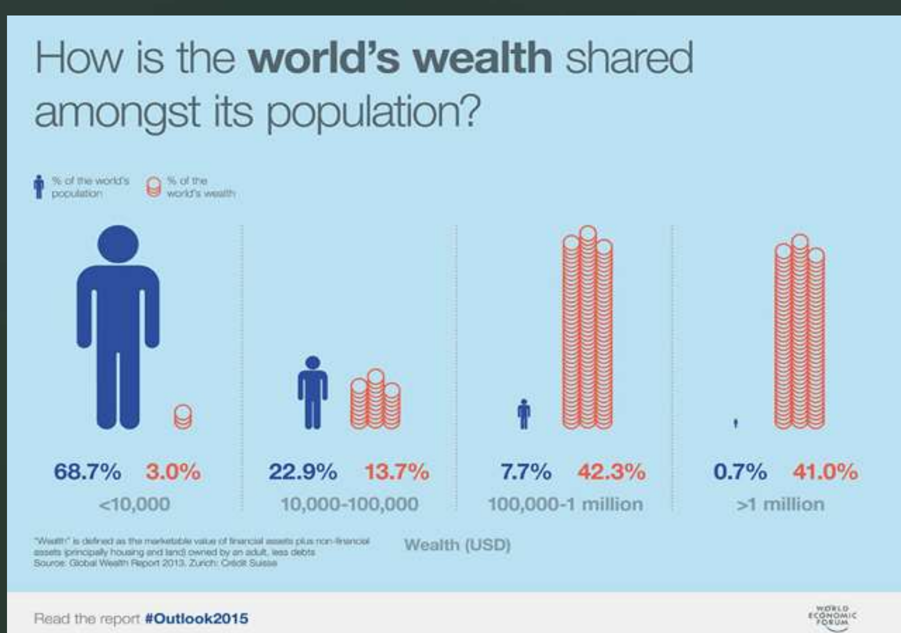
https://www.youtube.com/watch?v=YDUq0DINhYk

NAFTA
NORTH AMERICAN FREE TRADE AGREEMENT

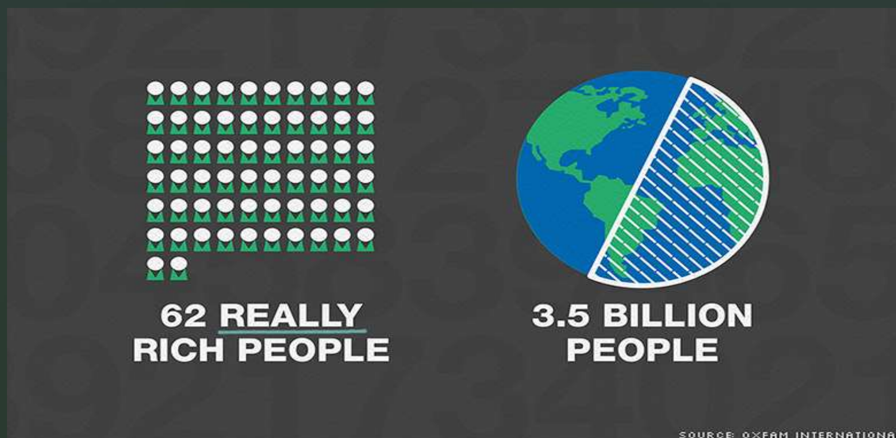
North-South

North-South Trade Issues

- Trade is an important issue of growth for LDCs.
- Trade is controversial for LDCs, however, because of concerns regarding the distribution of the gains from trade (related to the terms of trade).
- In the 1970s, a coalition of developing nations in the UN called the Group of 77 led the call for a new international economic order (NIEO) with conditions more favorable to LDC trade—including greater access for their primary commodities into developed countries' markets, and a code of conduct for transnational corporations.
- Structural adjustment policies by the IMF and World Bank have made assistance to LDCs conditional on the transformation of their economies in line with the "Washington consensus"—a set of economic liberal policies.



The 62 richest people in the world are worth more than the combined wealth 3.5 billion



Summing-Up on International Trade

Trade has been used to serve national interests in many ways:

- During the Cold War, for example, access to the U.S. market was used as a "carrot" to entice allies away from communism.
- Trade sanctions and the threat of sanctions have also been used as a tool to punish nations that take foreign policy stands the U.S. opposes.
- Liberals applaud the WTO for fulfilling the dreams of liberal officials who favor further opening up the international trade system.
- Even so, a number of countertrends co-exist with this liberal objective. Many state officials, as yet, remain divided about the value of the WTO.
- An increasing number of actors such as MNCs and NGOs are likely to be interested and will try to influence trade policy in the future.
- Many interest groups have mounted campaigns to challenge the benefits of free trade and the policies of the WTO.
- The liberal trade structure appears to be giving way to a managed trade system that mixes liberal, mercantilist, and structuralist practices.

Pros and Cons of Tariffs

Left Argument

- Protect workers (unions)
- Protect communities
- Start-ups (infant industries)
- Small Businesses

Liberal

- Encourages competition
- Innovation
- Efficiency
- Breaks down borders

Conservative

- Increases state power
- Protects domestic industry
- Nationalist and mercantilist

The Multinational and Transnational Corporation

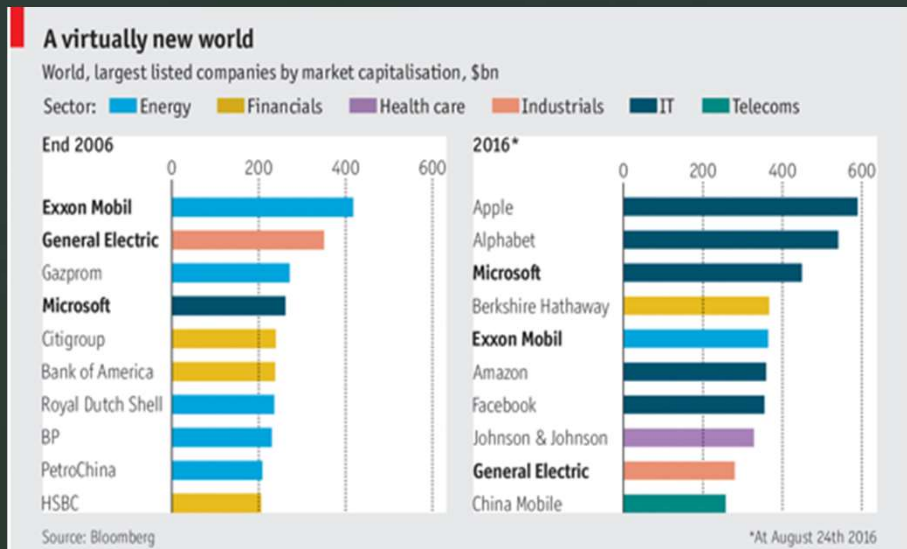
- MNCs have investment in other countries, but do not have coordinated product offerings in each country. It is more focused on adapting their products and service to each individual local market
- TNCs have invested in foreign operations, have a central corporate facility but give decision-making, R&D and marketing powers to each individual foreign market

The Multinational and Transnational Corporation

- *Mercantilist view*: MNCs take on the identity of a state, pursue a state's interests and generally act as an agent of a state in the global economy. Thus should be treated with suspicion because they are foreign agents.
- *Revolutionary or revisionist view*: MNC's control a state, whose government acts as the MNC's agents and uses public policy to push forward the interests of the MNC. Thus MNCs should be treated with suspicion because of their power
- *Liberal view*: MNCs are independent of any state, pursuing their own interests in the form of profits, owing no loyalty to any state, acting as its own agent and neither controlling nor under the control of any state. Should be treated the same as any other company in terms of its interests and how it pursues profits

Multinational Corporations: Definition

- Multinational corporations (MNCs) are companies based in one state but operate globally, with fixed facilities and employees in several countries.
- Types of MNCs:
  - Industrial corporations: corporations that manufacture goods and sell them in various countries (cars, electronics)
  - Financial corporations: banks that operate in several countries
  - Service corporations: entities that provide services in several countries (telephone services, airlines)



Impact of MNC's

- MNC's can have revenue in the billions of dollars. Thus their operations can have a significant impact on the economies of states, whose GNP's are sometimes smaller than MNC revenues. Wal-Mart: revenue larger than the GDP's of all but 35 states.
- Push for global interdependence and a liberal world order:
  - Having operations in different states, are interested in breaking down economic barriers among them
  - Often develop and draw upon a group of managers and specialists who cross borders and tend to have loyalties to the companies than to states
  - Push for an world environment that is peaceful, so as not to interrupt business
  - Push for the stability of international rules and the international order in general because predictable rules and regulations are less expensive to follow than those that constantly change
  - Push for free flows of labor, trade and capital flows.

Robin Hood Tax

- https://www.youtube.com/watch?v=ZzZIRMXcxRc

Corporations and Countries 2011

Top 100 Countries/Corporations

	Country/Corporation	Revenue (US$, bns)		Country/Corporation	Revenue (US$, bns)		Country/Corporation	Revenue (US$, bns)
1	United States	3,251	35	Austria	189	69	Ping An Insurance	110
2	China	2,426	36	Samsung Electronics	177	70	United Arab Emirates	110
3	Germany	1,515	37	Turkey	175	71	Kroger	110
4	Japan	1,439	38	Glencore	170	72	Société Générale	108
5	France	1,253	39	Industrial & Commercial Bank of China	167	73	Amazon.com	107
6	United Kingdom	1,101	40	Daimler	166	74	China Mobile Communications	107
7	Italy	876	41	Denmark	162	75	SAIC Motor	107
8	Brazil	631	42	UnitedHealth Group	157	76	Walgreens Boots Alliance	103
9	Canada	585	43	CVS Health	153	77	HP	103
10	Walmart	482	44	EXOR Group	153	78	Assicurazioni Generali	103
11	Spain	474	45	General Motors	152	79	Cardinal Health	103
12	Australia	426	46	Ford Motor	150	80	BMW	102
13	Netherlands	337	47	China Construction Bank	148	81	Express Scripts Holding	102
14	State Grid	330	48	AT&T	147	82	Nissan Motor	102
15	China National Petroleum	299	49	Total	143	83	China Life Insurance	101
16	Sinopec Group	294	50	Argentina	143	84	J.P. Morgan Chase	101
17	Korea, South	291	51	Hon Hai Precision Industry	141	85	Gazprom	99
18	Royal Dutch Shell	272	52	General Electric	140	86	China Railway Engineering	99
19	Mexico	260	53	China State Construction Engineering	140	87	Petrobras	97
20	Sweden	251	54	AmerisourceBergen	136	88	Trafigura Group	97
21	Exxon Mobil	246	55	Agricultural Bank of China	133	89	Nippon Telegraph & Telephone	96
22	Volkswagen	237	56	Verizon	132	90	Boeing	96
23	Toyota Motor	237	57	Finland	131	91	China Railway Construction	96
24	India	236	58	Chevron	131	92	Microsoft	94
25	Apple	234	59	E.ON	129	93	Bank of America Corp.	93
26	Belgium	227	60	AXA	129	94	ENI	93
27	BP	226	61	Indonesia	123	95	Nestlé	92
28	Switzerland	222	62	Allianz	123	96	Wells Fargo	90
29	Norway	220	63	Bank of China	122	97	Portugal	90
30	Russia	216	64	Honda Motor	122	98	HSBC Holdings	89
31	Berkshire Hathaway	211	65	Japan Post Holdings	119	99	Home Depot	89
32	Venezuela	203	66	Costco	116	100	Citigroup	88
33	Saudi Arabia	193	67	BNP Paribas	112			
34	McKesson	192	68	Fannie Mae	110			

Organization of MNCs

- Parent corporation in home country (country in which the MNC is registered and based), which is subject to the laws and regulations of the home country.
- Parent corporations may be engaged in manufacturing, finance or services themselves or be a holding company (a company that owns or controls a majority of another company's stock, but engages in no economic activities itself).

Organization of MNCs

- Subsidiaries (companies owned by another country) of the MNC operate in host countries and are subject to the laws and regulations of the host country. While physically separate from the parent corporation, they are managerially and otherwise connected, as they are staffed by the parent company and the strategy, operations and profits of the subsidiaries are also controlled by the parent company.

MNCs and Direct Foreign Investment

- MNCs are an important source of foreign direct investment (FDI) in countries. Investment is the act of exchanging money for the ownership of capital, mostly in the form of building, factories, vehicles, machinery.
- Such foreign investment in tangible capital, as opposed to investment in bonds, securities or currency, is not portable. For the most part it is impossible to move factories out of a country.
- It is also part of a long-term commitment and strategy. The acquisition of tangible capital is not worthwhile in the short run, as it will also entail investment in a managerial staff, worker training, legal operations, the building up of a supply and client chain, etc.

Attitudes towards MNCs and FDI

Mercantilists: FDI is a way for a country to lose control over its economic foundations to foreign countries; thus FDI can be a threat to national security and sovereignty, and to the overall economic well-being of the country, as profits and control of economic activities are in the hands of foreign nationals.

Developing Countries and MNCs and FDI

- Economic nationalists in developing countries: while the FDI that MNCs bring is needed to develop the economy, there is the chance that it is the way for other countries to exploit and colonize the country, as was the case in the past……So welcome the investment but worry that it comes at a high price in terms of long-term economic well-being and national security
- It is also the means by which traditional culture and economic activities are displaced and destroyed, thus threatening the identity of the country.

MNCs and FDI

- Economic nationalists in developed countries: also are worried that FDI means loss of economic control to foreign powers. Worry that competitors will dampen economic growth by repatriating profits (sending profits from subsidiaries back to the home company) and will gain control of key industrial sectors and natural resources– airplane and defense manufacturers, energy companies, oil companies.
- Thus often believe that FDI is a threat and should be eliminated.

MNCs and FDI

- *Liberals*: FDI is good because it spreads economic activity across borders, spurs growth in all countries, and contributes to greater economic efficiency in the global economy by enabling economic activity to take place where the conditions for doing business are most favorable.
- Because FDI produces jobs and economic activity in host countries, it is beneficial to those countries, whose level of economic activity and prosperity would be lower if not for that investment. Tend to worry less about the national security aspects of FDI because hold that the more international economic activity there is, the less likely conflicts will lead to war. International economic activity tends to foster cooperation and non-violent conflict resolution.

Relations Between MNCs and Governments

- Relations between and MNC and its home country can be complicated by the fact that the MNC has subsidiaries in particular countries that may or may not be friendly to the home country.
- Thus a MNC may invest in a country that the home country wishes to isolate economically and politically; thus, it might be punished by the home country through fines, or its directors subject to criminal prosecution. Ex: US companies that would try to create subsidiaries in Iran.

Relations Between MNCs and Home Governments

- This relationship also might become complicated because of the actions of the home country or the actions of a host country.
  - The home country may initiate hostile operations against the host country of an MNC subsidiary, resulting in the confiscation of the subsidiary company's property in the host country. The prospect of such an action may lead the MNC to lobby the home government against hostile actions, or to blame the home government for the loss of its property and claims for compensation e.g. US/United Fruit in Chile
  - A host country may also confiscate the property of a subsidiary for other reasons, cause the parent MNC to lobby its home country government to pressure the host country to reverse it actions or compensate the MNC.

Relations between MNCs and host countries

- Decisions to base a subsidiary in a host country usually follows negotiations in which the MNC attempts to extract the most favorable terms possible from the host government in which the host government attempts to lure the MNC to invest and the MNC threatens to take its investment elsewhere unless favorable conditions are created:
  - Favorable tax treatment
  - Creation of infrastructure
  - Investment in relevant education of workforce
  - Relief from environmental, safety and other regulations
  - Favorable treatment for goods imported as part of manufacturing process.

Sources of Conflict between MNCs and Host Countries

- Governments break agreement on taxes, infrastructure, etc. This may be the result of a change in government, a change in the economic environment or a change in the political environment. This poses problems for the MNC because once it has invested, it is difficult to take that investment out– cannot move capital, may be difficult to sell the subsidiary for a reasonable price.
- Host country nationalizes the subsidiary. To nationalize: the action by a government to convert capital from private to public ownership and control.

Sources of Conflict

Changes in host country's trade policies that hurt the subsidiary because meant to help the country's citizen-owned corporations and businesses.

For example, trade restrictions that limit imports of cheap goods important to a manufacturing process, forcing the subsidiary to buy more expensive goods from local vendors. Countries may also specify that a certain percentage of the materials used in a manufacturing process be sources from local suppliers.

Sources of Conflict

- Changes in monetary policy that weaken the value of the host country's currency may make the import of crucial materials more expensive.
- Civil wars or domestic violence may hurt business, or damage or destroy capital, leading to the withdrawal of the MNC or the suspension of its operations in the host country.

POST WW2 DEVELOPMENTS – Many Crises

- 1982: Mexican Debt Crisis
- 1985: Savings and Loan Association Crisis (US)
- 1989: Japanese asset bubble burst
- 1991: **Bank of Credit and Commerce International (BCCI)** scandal- biggest banking fraud….lack of regs.
- 1992: Maastrich Treaty –EU and Euro
- 1994: Financial Crisis in Turkey
- 1995: **Barings Bank** fails for a second time.
- 1997: East Asian Financial Crisis

LAST DECADE of 20th. C.

- 1998: Russian Financial Crisis
- 1999 Brazilian Crisis
- 1999: Eleven European countries introduced Euro as an accounting currency
- 2001: Turkish Financial Crisis
- 2002: Euro banknotes and coins are launched

2000s

- 2005: China emerged as a major player in the global financial system
- 2006: Problems in the US Mortgage Market
- 2007: US Mortgage Crisis and Recession
- 2008-15: Global Economic Crisis
- Massive loss of wealth, near collapse of Portugal, Italy, Greece, Spain (PIGS) and of EU

ON THE DANGERS OF BANKING!

"I believe that banking institutions are more dangerous to our liberties than standing armies. If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and corporations that will grow up around the banks will deprive the people of all property until their children wake-up homeless on the continent their fathers conquered."

Thomas Jefferson 1802

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Global Financial Deregulation

- From 1973 see fairly rapid 'de-regulation' by major states.
- Three aspects:
  - Deregulation of particular national markets
  - Removal of controls separating functionally distinct markets e.g private and commercial banking
  - Removal of Controls over movement of capital across borders

Changing Financial System

- Massive Increase in Volume of Trading across different markets.
- The daily volume of share trading on the New York Stock exchange increased from approximately 10 million in 1970 to over 1 billion in 2005. Today (2018) it is 1.5 billion/daily -- daily trade value about $30 billion
- All Stock markets = $1.7 trillion/day
- Foreign Exchange markets = $5.3 trillion/day – remember: The height of a stack of one trillion one dollar bills measures **67,866 miles**.

- High Levels of Volatility
- Early 2000s Dow Jones lost half its value
- Values of major currencies fluctuant by 50 to 100 per cent
- Finance itself becomes critical industry, Between a quarter and a third of UK employees involved in Finance
- Cultural normalisation of debt and speculation

Rapid Deregulation & Globalization

1970s: Financial deregulation of banks & offshore banking

1980s: Globalization of the bond markets

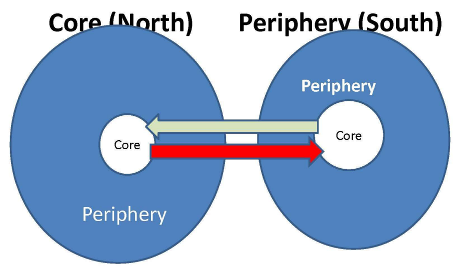
1990s: Globalization of banking & equity markets

1995: Globalization of trade under WTO

- **Dependency Theory's explanation**
- Dependency Theory rejects Liberalism's central assumptions, arguing……
- The factors that liberals argued would contribute to growth actually contributed to inequality!

- **Dependency Theory: a theory of exploitation in international exchange**
- Marxist theories were concerned with exploitation at the site of production
- Dependency theory focuses on exploitation at the site of exchange
- Core and periphery
- Core is enriched at the expense of the periphery: exploitation
- The opposite of comparative advantage

Dual Economies and Dependency



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Dependency Theory's explanation

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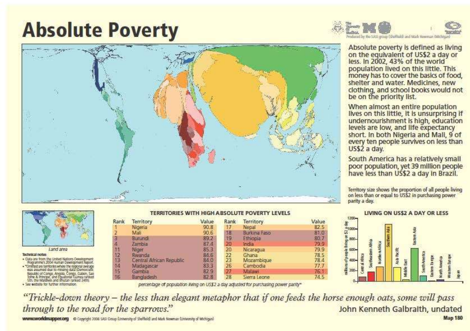
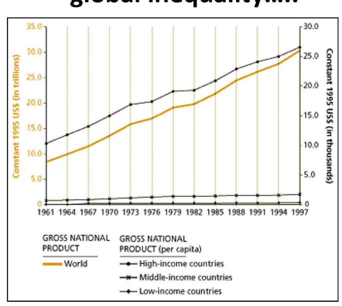
Why this difference?


And…….



Dependency Theory is concerned with global inequality…..



Summary of Liberal Theories of Development

	Internal	External
Stimulants	•Human Capital •Entrepreneurial Spirit •Efficient Government •Savings •Research and Development •Investments = *Modern Society*	•Opportunities to Catch Up •Foreign Investments •Trade •Aid
Hindrances	•Political Instability •Corruption •Traditional Society	•Trade Barriers in the North •Absence of project finance •Absence of Balance of Payments finance

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Democracy and Markets

- Democracy and markets encourage each other: political and economic freedom are two sides of the same coin