

Globalization and All That

**GLOBALIZATION IN CRISIS:
THE US-CHINA TRADE WAR AND THE
FUTURE OF GLOBAL GROWTH**

SEPTEMBER 25, 2018
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JEWELNER is an assistant professor of history at University of Chicago. His research interests include modern Chinese history, labor history, history of capitalism and globalization. His most recent article on the current US-China trade war in Foreign Policy has attracted much attention.

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Globalization and All That

Sept. 17 **Welcome to the Global Economic Crisis**

What happened and why? Features and explanations for the crisis. What were the consequences – economic, political? Looking at key concepts of the international economy and economic terms and tools

Sept. 24 **A Little History**

Globalization before it was cool. Empires, capitalism and Europe. The Great Depression and its impact – lesson learnt and forgotten

Oct. 1 **A Little Theory**

How do we think about the global economic system? Where do the ideas come from? Why is theory important? Battle of the Thinkers: Conservatives vs Liberals vs Radicals.

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Oct. 15 **Global Trade**

What is this? History and Development. Free Trade, economic nationalism and causes of war

Oct. 22 **Global Financial and Monetary System**

From manufacturing to service economy. Financial sectors and banks. Revisiting the global crisis.

Oct. 29 **Globalization and Interdependence**

The relationship between globalization and interdependence. Tension between nationalism and globalization. Who controls the world?

Nov. 5 **Development and Global Inequality**

Global inequality. The Third World. How do we help? How do countries grow. Free Trade to fair Trade?

Nov. 19 **Future of Globalization**

Happy Birthday ! Global Economic Recession

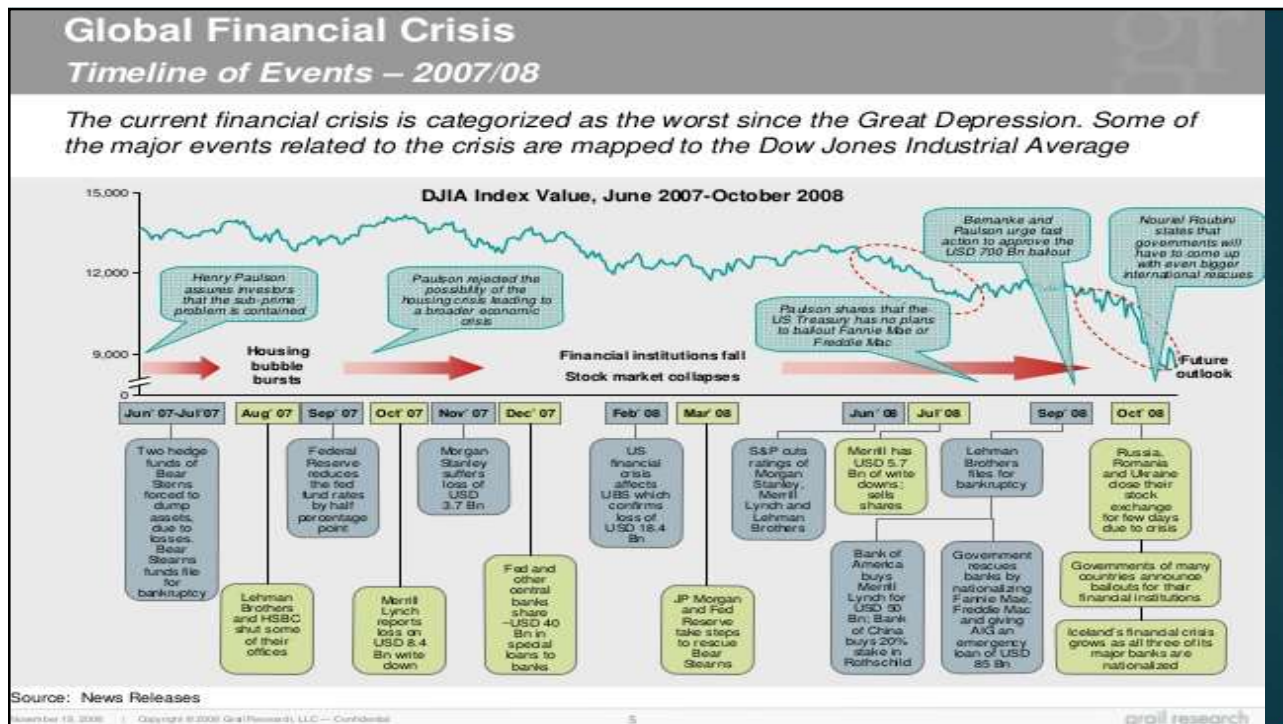


Bush Statement 9/24/2008

▶ <https://www.youtube.com/watch?v=T6bmEv2-rFA>

Europe Too





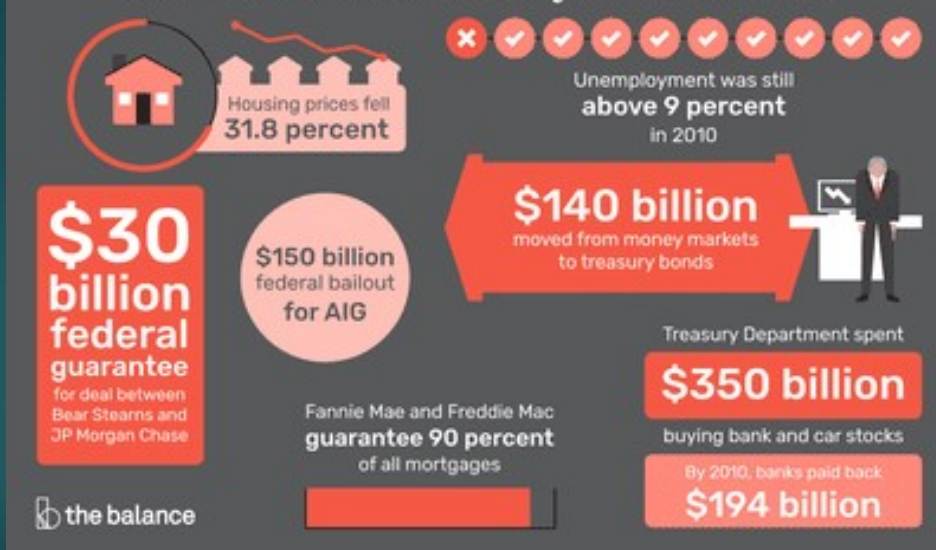
Disaster Timeline

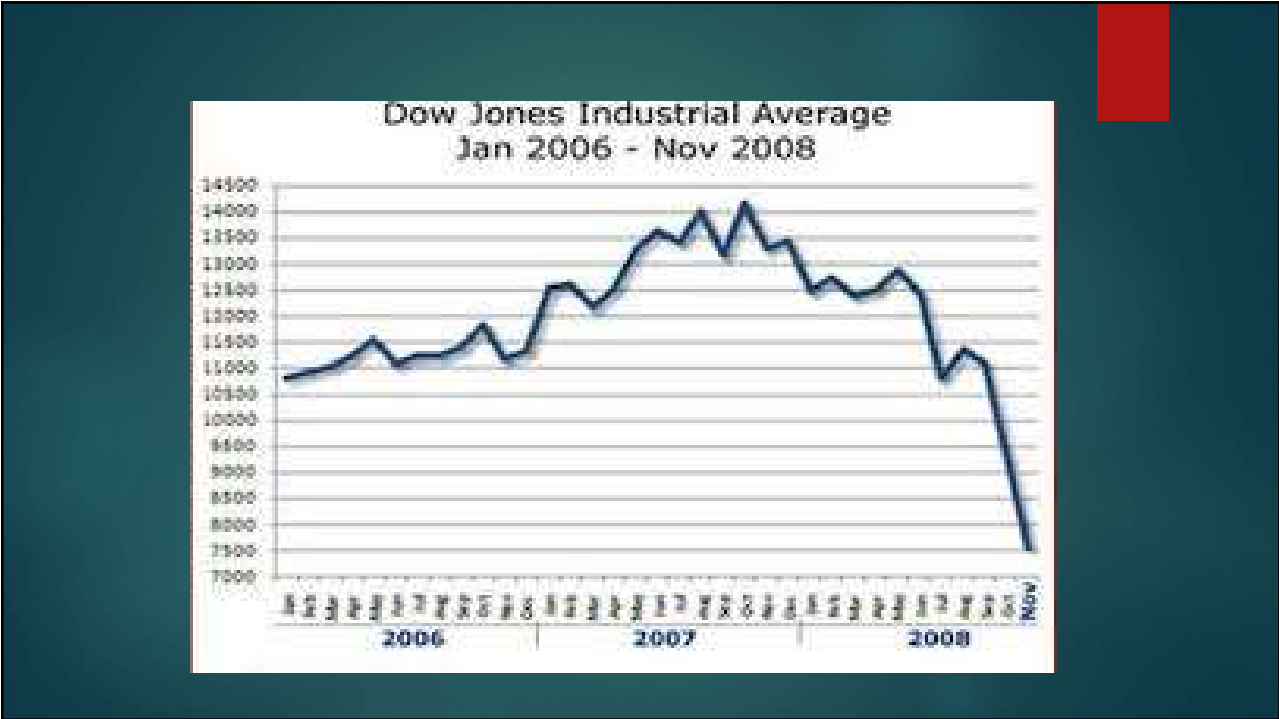
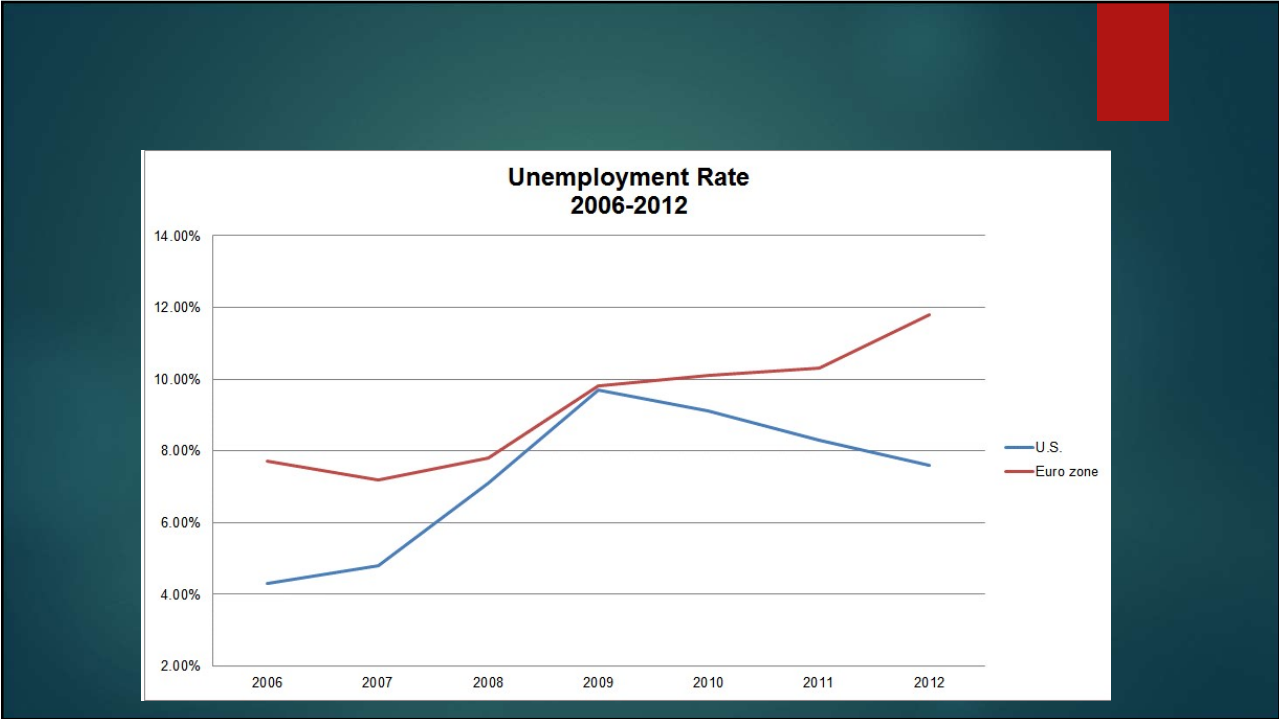
- ▶ **Apr 2007** The first signs of trouble in the US housing market as subprime specialist lender New Century Financial files for bankruptcy.
- ▶ **Aug 2007** French bank BNP Paribas suspends three funds that invested in the US mortgage market. It blames a "complete evaporation of liquidity".
- ▶ **Sept 2007** In the UK, investors queue to take their money out of Northern Rock – the first run on a bank in the UK since 1866.
- ▶ **Mar 2008** JP Morgan agrees to buy Bear Stearns, which is on the brink of collapse due to its exposure to the failing subprime investments.
- ▶ **July 2008** Authorities prop up America's two largest lenders Fannie Mae and Freddie Mac, two government-sponsored enterprises that bought mortgages from banks.

Disaster Timeline

- **Sep 2008** US bank Lehman Brothers collapses. Banks and corporations globally begin to fail. In the UK, HBOS is taken over by Lloyds.
- **Oct 2008** US signs an act to effectively bailout its financial system. UK government steps in to save its banking system.
- **Nov 2008** The International Monetary Fund begins approving loans to stabilise countries including Ukraine and Iceland.
- **Dec 2008 – Jan 2009** Global economies begin to go into recession. Central banks cut rates in a co-ordinated effort to stem the crisis.
- **March 2009** Global stock markets hit post crisis lows. Interest rates are reduced to record lows in US and UK. Both countries begin huge quantitative easing measures.
- **June 2009** OECD says the world economy is near the bottom of its worst recession in post-war history.

The Great Recession by the Numbers





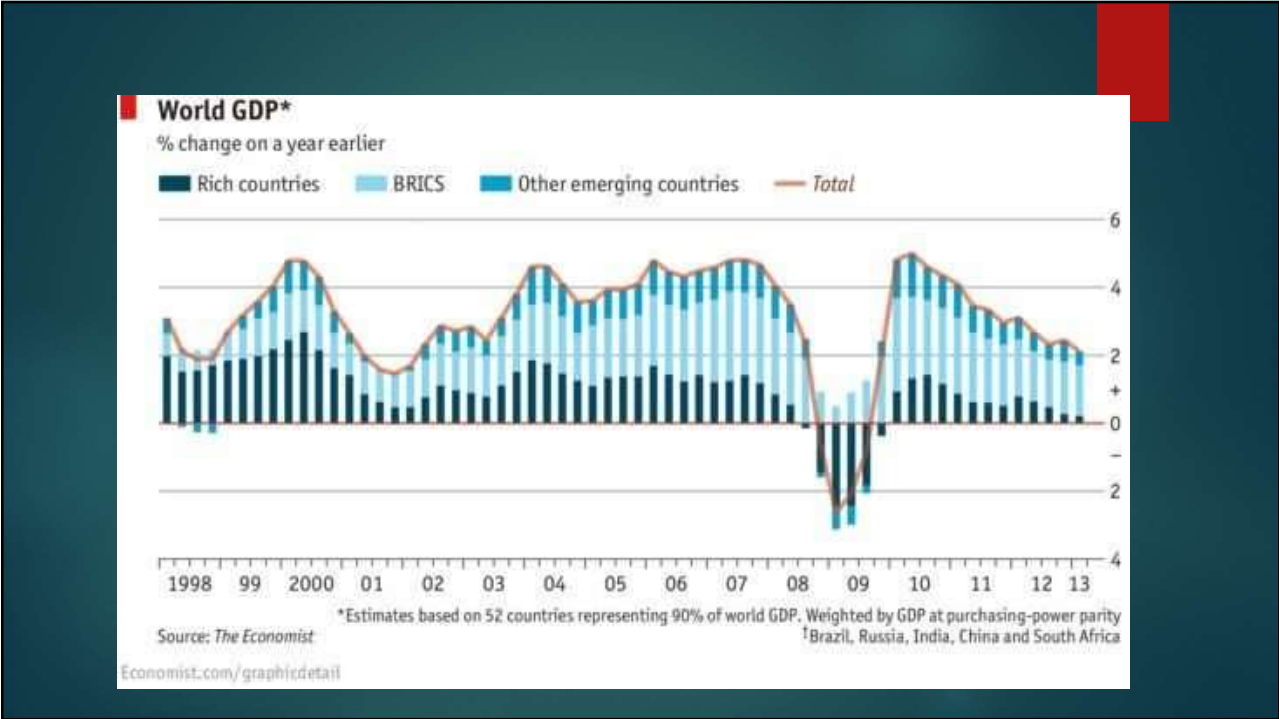


Figure 2. General Motors Corporation stock, 2007-2011 (in dollars and volume traded)



Source: Yahoo Finance <http://finance.yahoo.com> retrieved August 19, 2011.

Figure 3. Citigroup, Inc. stock, 2007-2011 (in dollars and volume traded)



Source: Yahoo Finance <http://finance.yahoo.com> retrieved August 19, 2011.

Figure 4. American International Group stock, 2007-2011 (in dollars and volume traded)



Source: Yahoo Finance <http://finance.yahoo.com> retrieved August 19, 2011.

Figure 5. Fannie Mae stock, 2007-2011 (in dollars and volume traded)



Source: Yahoo Finance <http://finance.yahoo.com> retrieved August 19, 2011.

Figure 6. Freddie Mac stock, 2007-2011 (in dollars and volume traded)



Source: Yahoo Finance <http://finance.yahoo.com> retrieved August 19, 2011.

What Caused the Crisis of 2008?

Well, a lot of stuff.....

Fannie Mae and Freddie Mac hold a huge share of American mortgages.

- ▶ Beginning in 1995, HUD regulations required Fannie Mae and Freddie Mac to increase their holdings of loans to low and moderate income borrowers.
- ▶ HUD regulations imposed in 1999 required Fannie and Freddie to accept more loans with little or no down payment.

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The Economic Crisis of 2008: Cause and Aftermath
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What Caused the Crisis of 2008?

The Fed's manipulation of interest rates during 2002-2006

- ▶ Fed's prolonged Low-Interest Rate Policy of 2002-2004 increased demand for, and price of, housing.
- ▶ The low short-term interest rates made adjustable rate loans with low down payments highly attractive.
- ▶ Real wages declining since 1970s
- ▶ As the Fed pushed short-term interest rates upward in 2005-2006, adjustable rates were soon reset, monthly payment on these loans increased, housing prices began to fall, and defaults soared.

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The Economic Crisis of 2008: Cause and Aftermath
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What Caused the Crisis of 2008?

An SEC Rule change adopted in April 2004 led to highly leverage lending practices by investment banks and their quick demise when default rates increased.

- ▶ The rule favoured lending for residential housing.
- ▶ Loans for residential housing could be leveraged by as much as 25 to 1, and as much as 60 to 1.
- ▶ When default rates increased in 2006 and 2007, the highly leveraged investment banks soon collapsed.

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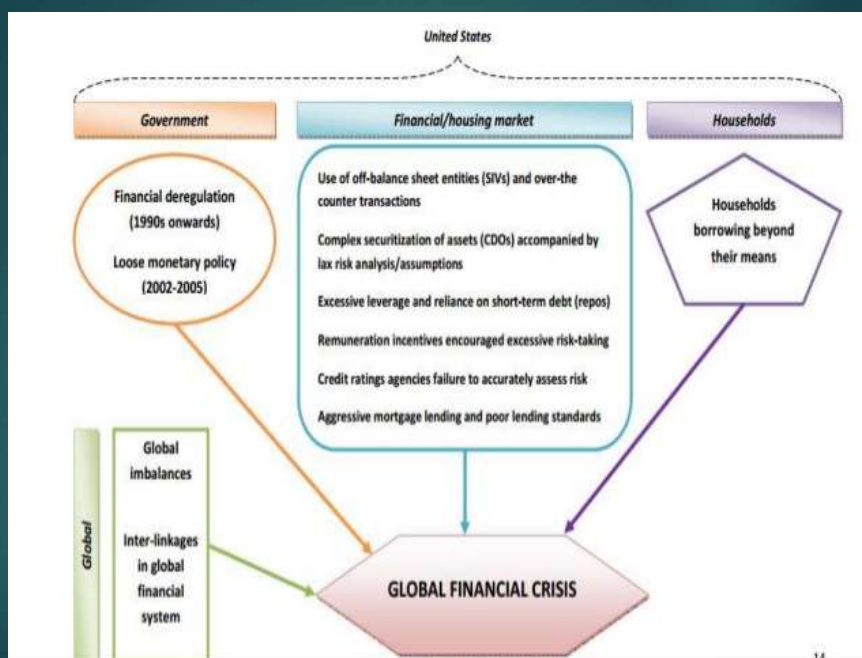
What Caused the Crisis of 2008?

Doubling of the Debt/Income Ratio of Households since the mid-1980s.

- ▶ The debt-to-income ratio of households was generally between 45 and 60 percent for several decades prior to the mid 1980s. By 2007, the debt-to-income ratio of households had increased to 135 percent.
- ▶ Interest on household debt also increased substantially.
- ▶ Because interest on housing loans was tax deductible, households had an incentive to wrap more of their debt into housing loans.
- ▶ The heavy indebtedness of households meant they had no leeway to deal with unexpected expenses or rising mortgage payments.

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The Economic Crisis of 2008: Cause and Alternatives rev/200902



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Explaining the Housing Collapse and the Crisis

▶ <https://www.youtube.com/watch?v=JVSpPXterd0>

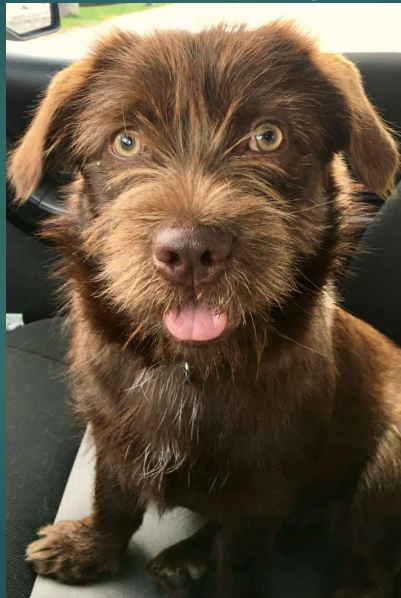
Explaining the Crisis – A Different View

▶ https://www.youtube.com/watch?v=qOP2V_np2c0

What is Globalization?

- ▶ Growth of networks of interdependence that transcend national and regional boundaries
 - ▶ Economic networks
 - ▶ Trade
 - ▶ Capital flows
 - ▶ Labor migration
 - ▶ Communication and transportation networks
 - ▶ Networks linking soldiers, criminals, terrorists
 - ▶ Advocacy networks
 - ▶ Religious organizations
 - ▶ Social networks
 - ▶ Cultural Networks
 - ▶ Entertainment
 - ▶ Language
 - ▶ Education
 - ▶ Shared Values?

Picture of Opie



Globalization

The Organization for Economic Cooperation and Development defines it as:

A process "by which markets and production in different countries are becoming increasingly interdependent due to dynamics of trade in goods and services, and then flows of capital and technology."

World Health Organization

"Globalization, or the increased interconnectedness and interdependence of peoples and countries, is generally understood to include two inter-related elements: the opening of international borders to increasingly fast flows of goods, services, finance, people and ideas; and the changes in institutions and policies at national and international levels that facilitate or promote such flows."

- ▶ An economic phenomenon?
- ▶ A social phenomenon?
- ▶ A cultural phenomenon?

Globalization is Interconnectedness

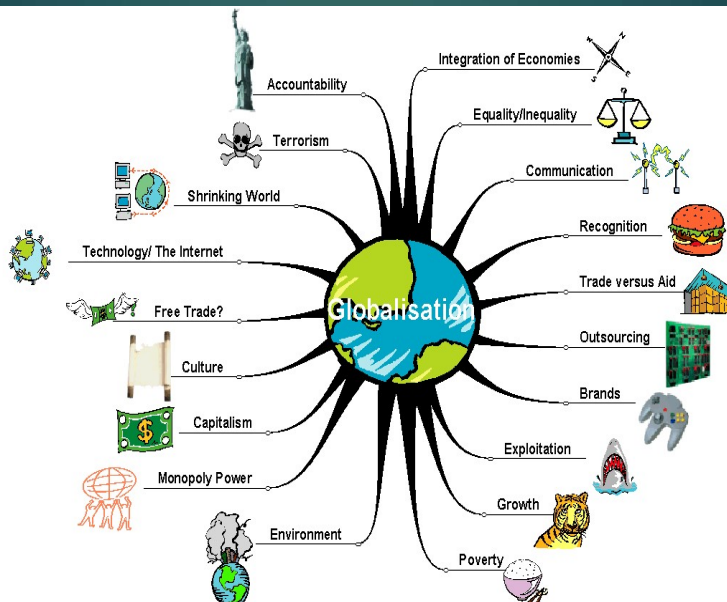
- ▶ The increasing reliance of economies on each other
- ▶ The opportunities to be able to buy and sell in any country in the world
- ▶ The opportunities for labour and capital to locate anywhere in the world
- ▶ The growth of global markets in finance



Integration of Economies

- ▶ Made possible by:
 - ▶ Technology
 - ▶ Communication networks
 - ▶ Internet access
 - ▶ Growth of economic cooperation – trading blocs (EU, NAFTA, etc.)
 - ▶ Collapse of 'communism'
 - ▶ Movement to free trade

Lots of Connections



An Invention that Changed the World !



Oops!



Inventor of the Container



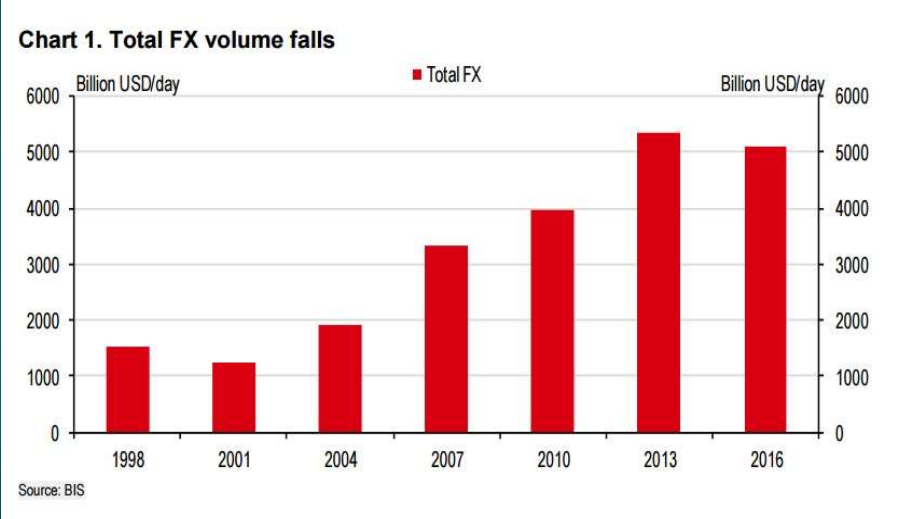
Trade and Financial Capital Movement

- ▶ Massive increase in global trade in products and goods
- ▶ Massive increase in the flow of capital and investment – short and long term
- ▶ Increasing migration of peoples
- ▶ Instantaneous knowledge at a global level

Raises the question:

Can governments control their economies and make economic policy that responds to crisis, plans, or human need?

How Much Currency is Traded Daily?
\$US5,100,000,000,000. That's trillion with a "T".
\$5 trillion



What Does 1 Trillion Dollars Look Like?

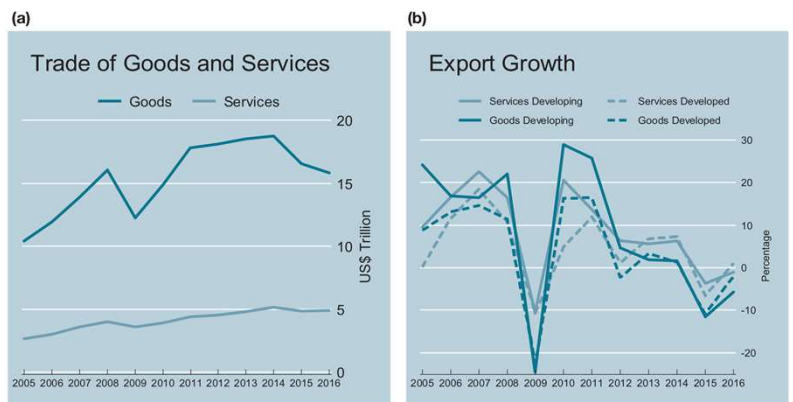
▶ <https://www.youtube.com/watch?v=IAZy75RKb84>

Size of Foreign Exchange Markets



Scope of World Trade 2017

Figure 1
Values and growth rates of world trade in goods and services



Source: UNCTAD secretariat calculations based on COMTRADE data.

Merchandise Exports by Region, WTO, 2012



People on the Move International Migration

- ▶ The number of international migrants worldwide has continued to grow rapidly in recent years, reaching 258 million in 2017, up from 220 million in 2010 and 173 million in 2000.
- ▶ Over 60 per cent of all international migrants live in Asia (80 million) or Europe (78 million). Northern America hosted the third largest number of international migrants (58 million), followed by Africa (25 million), Latin America and the Caribbean (10 million) and Oceania (8 million).

Size Matters Growth of Multinationals

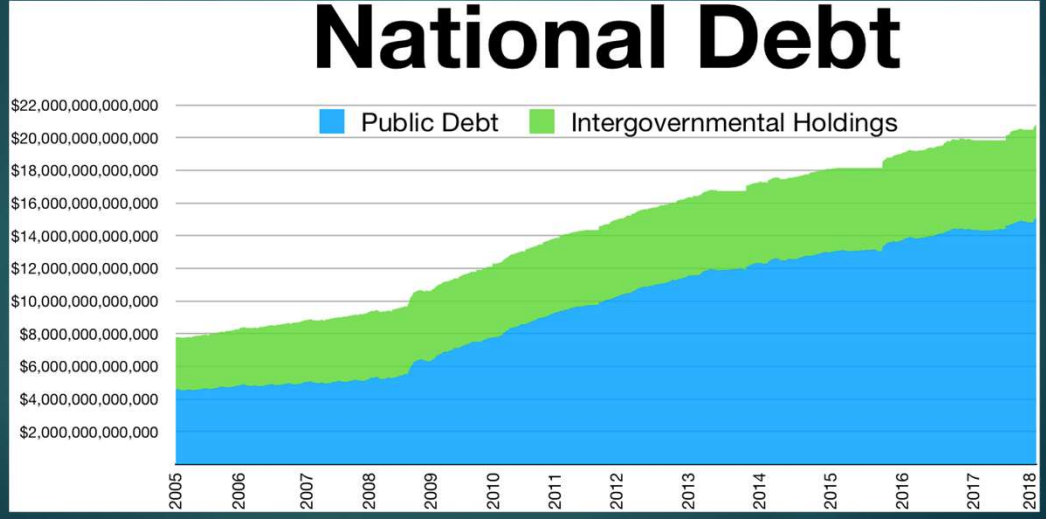
- ▶ [Walmart](#) – \$485.9 billion revenue in 2017
- ▶ [State Grid Corporation of China](#) – \$315.2 billion revenue in 2017
- ▶ [Sinopec Group](#) – \$267.5 billion revenue in 2017
- ▶ [China National Petroleum Corporation](#) – \$262.6 billion revenue in 2017
- ▶ [Toyota Motor](#) – \$254.7 billion revenue in 2017
- ▶ [Volkswagen](#) – \$240.3 billion revenue in 2017
- ▶ [Royal Dutch Shell](#) – \$240 billion revenue in 2017
- ▶ [Berkshire Hathway](#) – \$223.7 billion revenue in 2017
- ▶ [Apple Inc.](#) – \$215.6 billion revenue in 2017
- ▶ [Exxon Mobil](#) – \$205 billion revenue in 2017

Size by Value

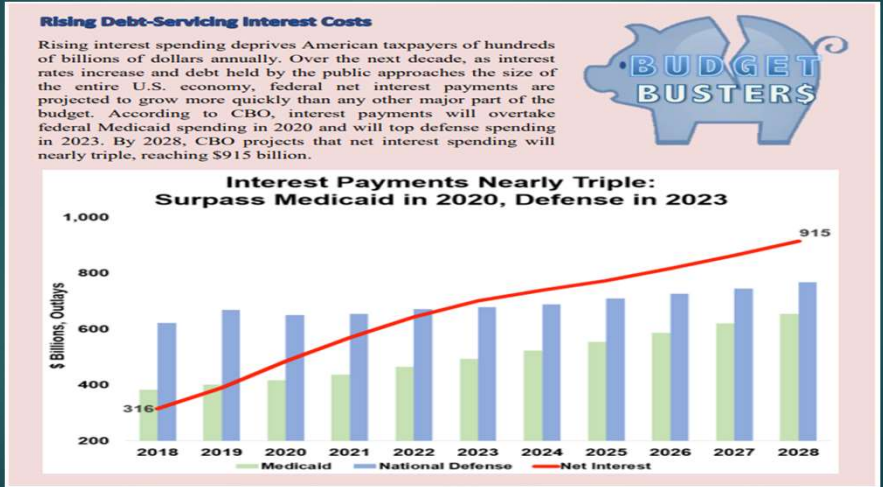
Ranking of the companies rank 1 to 100	Market value in billion U.S. dollars
Apple	926.9
Amazon.com	777.8
Alphabet	766.4
Microsoft	750.6
Facebook	541.5
Alibaba	499.4
Berkshire Hathway	491.9
Tencent Holdings	491.3
JPMorgan Chase	387.7
ExxonMobil	344.1
Johnson & Johnson	341.3
Samsung Electronics	325.9
Bank of America	313.5

US National Debt 2018 \$21.5 trillion (105% of GDP)

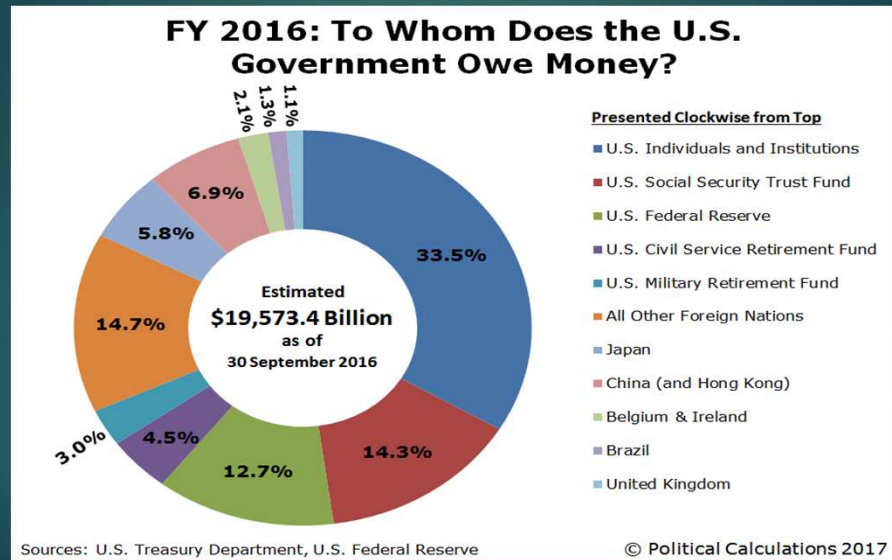
National Debt



Interest on US National Debt = \$1 billion/day



US Govt. Debt Holders



Big Questions for Us to think About

- ▶ What's the relationship between economics and politics?
- ▶ Can we resolve the tension between globalization and nationalism?
- ▶ Can governments control their economies?
- ▶ What is the future of democracy in an interdependent and globalized world?