Causal Chains of Economic Meltdown

*Thomas L. Friedman (1999), The Lexus and the Olive Tree*

- 1. Global speculation against Thai Bath b/c of perception of weak economy in December 1997
- 2. Thai government can’t keep fixed rate U.S. $ to Thai Bath
- 3. Business default on repayment of loan payments to banks
- 4. Banks default on U.S. $ repayment to foreign (U.S. etc.) lenders
- 5. Fifty-six out of a total of 58 Thai finance houses are closed
- 6. Tens of thousands white-collar employees are out of work—economy falls
- 7. Capital flight out of other Southeast Asian emerging markets, driving down the values of currencies in South Korea, Malaysia, Indonesia—with similar effects on banks, businesses, and employment as in Thailand
- 8. Foreign banks demand higher interest rates to compensate for higher risk—with curbing effect on investment and daily business operations
- 9. Southeast Asia recession leads to a decline of commodity prices around the world because of lower demand for gold, copper, aluminum, crude oil
- 10. Russia’s government, dependent on oil and other commodity taxes and foreign borrowing, defaults on ruble bond payments
- 11. International Monetary Fund (IMF) did not lend money to Russia to stabilize its currency b/c of lacking tax reform
- 12. Russia unilaterally devalued Ruble and defaulted on its government bonds—massive losses for private hedge funds and banks
- 13. Hedge funds and banks began selling assets worldwide to raise cash to pay back their bankers.
- 14. Panic reactions in other developing countries such as Brazil, Korea, Egypt, Israel, Mexico led to flight of investors in hard currencies or U.S. Treasury bonds and raising interest rates in affected countries to attract capital

Characteristics of Globalization Today

- Commonalities & Differences of post-Cold War Globalization today from Glob. of mid-1800s to late 1920
  - Shrinking of world
  - Global movement of capital, goods, services, people
  - Significant cost reduction (transport/communication)
  - Involvement of corporations, nation-states, individuals

Popular Globalization Theories

- Paul M. Kennedy (1987), *Rise & Fall of Great Powers*
  - extrapolation of U.S. decline from past history
- Francis Fukuyama (1989), *End of History*
  - overly optimistic triumph of free-market liberalism & democracy
- Robert D. Kaplan (1994), *The Coming Anarchy*
  - pessimist, underestimates stability of state system and penetration of global
- Samuel P. Huntington (1993), *Clash of Civilizations*
  - pessimist, exacerbates cultural differences and tribalist tendencies from past
- Thomas L. Friedman (1999), *The Lexus and the Olive Tree*
  - Civilization clashes & homogenization
  - Environmental disasters & solutions
  - Triumph of capitalism & backlash
  - Persistence of nation-states & rise of new non-state actors
  - Old power politics & new political formations/movements
Globalution—Revolution from beyond I (Friedman, chap.8)

- Analysis of the conflicting effects of globalization on a country’s democratization, economic development (acquisition of capital & technology), and standard of living
- Thesis 1: Commodities, business practices, discipline, transparency, standards, and values of global consumer culture, rights individualism, and Western political pluralism and democracy are embraced by young, educated, middle-class members of developing nations as a means to get rich without having to buy into old patterns of corruption and a traditional way of life
- Thesis 2: Market forces from beyond (“the herd”), i.e. global individual and corporate investors, lending institutions (banks, IMF), and Western governments are very mobile and prefer countries that offer stability, predictability, transparency, and the ability to transfer and protect its private property from arbitrary or criminal confiscation. This requires an appropriate investing “climate” and infrastructure, ranging from better software and operating systems to better governance= the building blocks of democracy
- Positive factors of global penetration that favor democratic development
  - Transparency of financial data and transactions
  - International financial reporting/accounting standards
  - Prosecution and strict regulation of corruption
  - Freedom of the press and unbiased reporting of facts
  - A bond market and competitive mutual funds/pension funds
  - Rule of law and democratization/regular elections because is provides flexibility, legitimacy, and sustainability
- Backlash against penetration from beyond
  - Resentment b/c of loss of control over local economy and political decision making
  - Resistanse against political and economic inequalities and discrepancies that are not perceived as legitimate
- Possible remedy
  - Citizenship and democratic governance
  - Understanding the power triangle of “Me—Internet—Supermarkets”
- Open questions
  - The “global herd” is identical with the “invisible hand of the market” driven primarily by self-interest of property/stock owners, speculation, and short-term profit motives only. Can sustainable development worldwide be based on such a force?
  - The “global herd” is not controlled by individuals, governments, international or lending institutions, or any rule of international law. Can it play the role of catalystor of democratization without being democratically controlled or abiding by some universally accepted norms?
  - The backlash against Globalution is often suppressed by force and complemented by human rights abuses to reinstate non-democratic “stability” and give investors “security” to go on with their business of exploitation without democratization effect. Friedman’s analysis seems overly optimistic about the democratic effects of globalution