Seven Developing Countries: From Emergence to Entrapment

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Development and Post-colonial Condition

- National Independence Movements & Industry Transfer
- Global Trade & Post-coloniality
- International Institutions of Dependence
  - Bretton Woods System, IMF, World Bank, WTO
- Global Structural Dependence
- Post-colonial or neo-colonial?
Smiling Curve of Value Added

- **High Value Added**
  - R&D, technologies
  - After-sales services
  - Production of components
  - Branding and Sales

- **Low Value Added**
  - Assembly
  - Margin: small

- **Process Flow**
  - Upstream
  - Margin: large
  - Downstream
  - Margin: large
Value Added along the GVC: The Smiling Curve:

- In GVC the most value creation is often found in:
  - **upstream activities** such as design, product development, R&D and manufacturing of key parts and components;
  - **downstream activities** such as marketing, branding and customer service;
- **Assembly**, often offshored, to emerging economies, represents only a small part of value generation.
Smiling Curve of International Division

- Profitability
- Finance
- Resources
- Manufacturing
- Resources Sovereignty
- Industry Transfer
- Financial/Currency Hegemony

Economic Structure

- Resources Economy
- Manufacturing
- Finance
Global Financial Capitalism

• 1971 The End of Gold-Dollar
• 1973 Post Bretton Woods
• US dollar supply increases astronomically
• Deregulation
• Neo-liberalism
• The Age of Super Financial Capitalism
• Liberal/Neo-liberal regimes of wealth concentration
Unconstrained Money Supply
World Money has Grown Much More than Industrial Production

- Total Reserves + Gold at Market Value vs. World Industrial Production

**TWO INFLECTION POINTS?**

- Unregulated, Offshore, Off Balance Sheet, OTC Securitization & Swaps Explode
- Financial Crisis and Shadow Banking Implosion

- World Reserve Currency No Longer Pegged to Gold
  - Glass-Steagall Repealed
  - Announced & Coordinated Central Bank Gold Sales Begin

- The Management of Real Money
  - Gold

- Shadow Banking Fully Emerges with protracted, historically low interest rates
  - Interest Rate and Currency Swaps grow by Trillions monthly to $617T in 2010

- Central Bank Gold Leasing Dominant
- Central Bank Gold Sales and Futures Sales Dominant
- Gibson's Paradox and Exchange Stabilization Fund
- Nixon Removes USA from Gold Standard

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Chronology of Super Financial Capitalism

- **1944** The Bretton Woods System The Unholy Trinity: IMF, World Bank, WTO
- **1971** Abolition of Dollar Gold Standard, US dollar liquidity
- **1974** Oil Crisis
- **1970s** Latin American Debt external debt from $75 billion in 1975 to more than $315 billion in 1983. 50% of the region’s GDP. (Petrodollar)
- **1979** Interest rate rocketed in US and Europe
- **1980** US Savings & Loans
- **1981** Defined-contribution pension plan 401(k) program
- **1982** Mexico Default. Third World Debt Crisis
- **1985** Plaza Accord. Japan Assets Bubble
- **1987** Black Monday
- **1988** Junk Bonds (The Wolf of Wall Street)
- **1991** Japan Bubble Burst
• 1990s Japanese Yen Carry Trade
• 1994 US Bond Crash
• 1995 Mexican Crisis
• 1997 Asian Crisis
• 1998 Russian Crisis
• 1998 Long Term Capital Management
• 1998 Citigroup The age of financial conglomeracy, megabank
• 1999 Financial Services Modernization Act (The Glass-Steagall Act)
• 2000 Commodity Futures Modernization Act, CDS, OTC derivatives
• 2000 David Li Gaussian Copula Function
• 2000 Dotcom Crash
• 2002 Argentine Crisis
• 2001-2005 Fed Interest Rate: 7% → 1%. A. Greenspan’s legacy
• 2005 Basel II
• 2007 Subprime Crisis
• 2008 Credit Crunch
• 2011 Europe Sovereignty Debt Crisis
• 2015 China Stock Market Crash
Central Bank → Liquidity → Financial Sector → Credit Expansion → Assets Bubble

Finance → Credit Expansion → Physical Economy → Value Added

Collateral

Unsustainable Credit Expansion Ponzi Scheme

Relatively Sustainable Credit Expansion
Trade Deficits and Debt as Tribute or Seignorage

A. 1996-2010 Current Account Deficits: $6.98 Trillion, 60% of global deficits
   2001-2007 $3.86 Trillion

B. Meanwhile US Net Foreign Debt increases by $2.3 Trillion

C. Profits: $4.67 Trillion

D. $2.3 Trillion Foreign Debt?
Total Real Return Indexes
January 1802 – December 2013

Past performance is not indicative of future results.

- Stocks: 6.7% Real
- Bonds: 3.5% Real
- Bills: 2.7% Real
- Gold: 0.6% Real
- Dollar: −1.4% Real
Global Reserve Currencies

- US dollar
- Euro

Legend:
- French franc
- Other
- Pound sterling
- Japanese yen
Dollar Cycle

Approximately 10 years going weak, 6 years going strong
Sheepshearing

1. US Fed Monetary Easing: liquidity into market
2. Emerging Markets Booming ➞ Assets Bubble
Sheeps Sheared

- 1. 1970s Latin America Debt Crisis
- 2. 1985-1990s Plaza Accord, Japan Assets Bubble
- 3. 1990s Shock Therapy in Russia
- 4. 1997 Asian Financial Crisis
- 5. 2013 Emerging Markets Crisis
US: from fiscal expansion to strategic contraction
US Trade Deficits Contraction
Clashes of Currency Hegemony

- US Dollar
- Euro:
- Asian Currency/RMB
Reshaping of Geo-monetary Politics

- Euro Zone:
  Kosovo War, Ukraine Crisis, Middle East (scorched-earth tactic, ISIS), Refugee Crisis, Right-wing populism, Fascism, EU Disintegration

- Asian Currency Alliance
  Chiang Mai Initiative (2000)
  China-Japan-Korea currency swap
  “Re-balancing”
New Debt Regime

• Washington Consensus turned up-side down
• Creditor/Debtor, Double Standard
• Astronomical Expansion of Debt
• Global Tributary System
China, Turkey: 
Empire → State-Capitalism (modernization) → Neo-liberalism

Former Colonies, Resources Curse:
- Brazil, South Africa, Venezuela
  Rich in Resources, Incomplete Industrialization, Reprimarization: extraction, cash crop, cash husbandry

Sovereignty Externality
- India, Indonesia
  Rich in Labor Force
  Strong Informal Sector
  Deep-grained regional conflicts
Silk Road Belt
The Southern Gas Corridor

Trans Adriatic Pipeline TAP  Trans Anatolian Pipeline TANAP  South Caucasus Pipeline
Berlin – Baghdad Railway: flash point of WWI