Available online at www.sciencedirect.com

ScienceDirect

Procedia Economics and Finance 23 (2015) 992 – 999

Procedia
Economics and Finance

www.elsevier.com/locate/procedia

2nd GLOBAL CONFERENCE on BUSINESS, ECONOMICS, MANAGEMENT and TOURISM, 30-31 October 2014, Prague, Czech Republic

Recent Problem of Global Capitalism: Rate of Exchange Wars

Serap Durusoy[a]*, Zeynep Beyhan[bc]*

[a]*Prof.Dr.,Abant İzzet Baysal University,Bolu 14100,Turkey*
[b]*Universita Degli Studi Di Foggia, Foggia 71121,Italy*
[c]*Abant İzzet Baysal University,Bolu, 14100,Turkey*

Abstract

Globalization has a vital role in economic, social and political modeling of the 20th century. Along with globalization, trading contracts, discounts in the applied tariffs and expanded trading networks have restored economics to a totalitarian structure. Favorable and unfavorable effects of this totalitarian structure, generated by rapidly expanding globalization, have revealed themselves in time. However, given the economic crises experienced in global economy during recent years, unfavorable and destructive effects of globalization are discussed a lot more. Hence, during the second quarter of 2007, the crisis, which started in the real estate market in USA and reflected in financial and real sectors, has folded into a global dimension and driven many EU countries to the brink of bankruptcy, particularly Greece, and this in turn has become the most prominent indication of destructive effects recently. Countries, especially USA, which experienced depression with the effect of the crisis, have been seeking solution for reinstating economic power in the centerline of protectionism. Indeed, a similar search was observed following 1929 Crisis and especially USA had increased protectionist measures following the crisis in its economy surrounded by high customs walls. These arrangements made in quota and tariffs in 1930s substantiate as interventions in the rate of exchange nowadays. Countries, which interfere in the rate of exchange and attempt to solve their economic problems by securing drop of their national currency against foreign currencies, influence exports of other countries and gain substantial power advantage. Thus, this war started years ago by China, one of the greatest economies in the world, was continued by USA due to 2008 Crisis and by Japan and China later on, and has carried the rate of exchange war appeal into the international agenda once again. However, USA, supporting the economy with dollars by purchasing bonds from the market starting in the first year the crisis emerged, announced a decrease in the bond program that was continued for five years by considering the improvement experienced in macroeconomic data by the end of 2013. Certainly this decrease would create unfavorable effects for economies struggling for financing the current deficit in developing countries specifically. Since the decrease in bond purchase would increase bond interests in USA, directing of capitals to USA market by foreign investors would affect countries unfavorably such as decrease in hot money flow in developing countries.

* Serap Durusoy. Tel.:+8-675-453-123.
E-mail address: durusoy_s@ibu.edu.tr

Selection and/ peer-review under responsibility of Academic World Research and Education Center
doi:10.1016/S2212-5671(15)00497-9

In this study, the way the developed countries, for instance USA and Japan, referred to monetary expansion was scrutinized and the rate of exchange wars were examined, and negative effects of this policy on the economy of developing countries, especially in the economy of Turkey were studied, when decrease in monetary expansion was observed in USA in the macroeconomic data.

Selection and/ peer-review under responsibility of Academic World Research and Education Center
Keywords: The Rate of Exchange Wars, Economic Power, Protective Policies.

1. Introduction

Together with the mortgage crisis, countries –mainly the USA- having entered into a period of recession and willing to get out of this recession gravitated towards a search for economy policies. Especially the method implemented by the USA under the name of monetary expansion package had a negative effect on the economies of other countries by increasing tension in the markets in a short period of time and became the focus of criticisms by many developing countries, mainly Brazil. This is because depreciation of dollar due to the USA's adoption of the monetary expansion policy had a negative effect on the exports of other countries and these countries stepped into action against the USA's Exchange rate intervention policy. So much so that a similar policy implemented by Japan against the USA in the first months of 2013 brought up the currency war discourse to the international agenda. Prime Minister of Japan, Shinzö Abe, stated that the monetary expansion policy was implemented to put a stop to the inclination towards recession in his country and achieve the targeted inflation objective of 2%.

Having livened up due to the currency war discourse at the beginning of 2013, markets were diverted to a different direction upon a statement in may by the FED front relating to the fact that purchasing of bills of Exchange will be reduced in 2014. Having resorted to monetary expansion to save its economy from recession in 2008, FED exposed developing markets to hot Money flow intensely while leaving the markets of developing countries in a difficult situation upon its announcement in the last FOMC meeting of 2013. Countries like Brazil, Indonesia, Turkey, South Africa, India took their place among the countries to be effected by the tapering implemented by FED most.

2. Search for a New Economic Power: Currency Wars

History of world economy has witnessed many crisis and policies changing after these crisis. Functionality of traditional policies implemented had the opportunity to be tested with each crisis and companies worn out by crisis started endeavoring to take their economies under preservation.

As a matter of fact, following the 1929 economic crisis in America, Hoover - US President at the time- concluded the agreement involving the boosting of customs duty receipts imposed on some products imported to the USA on 17th June 1929. After that, protectionism precautions swept all over the world and prices of imported products increased (www.euractiv.com.tr). Later on, England acted its part in these developments too. England, who defended free trade and spread it all over the world, made significant increases in customs duty gravitating towards protectionism and displayed an aggressive attitude imposinng quotas on import. Import quotas, which is a protectionism policy, and customs duties imposed on imported goods swept among the countries and lead to a failure to get out of the recession for a long time. Protectionism policies called the "beggarthyneighbour" policy (Horsewood& Sen &Voicu, 2009) that appeared in the 30s refers to the attempts of a country that has encountered economic imbalance at adjusting its balance by gravitating towards practices that will unbalance the economy of another country (Eğilmez,2013). It is also observed today that countries implement the protectionism policies implemented in the 30s in the form of intervening with Exchange rates. In other words, such Exchange rate adjustments carried out by some countries in a manner that will upset the balances in the economies of other countries for the sake of adjusting economic imbalances created by the crisis are defined as "Currency Wars" (Wheatley, 2010).

USA's surrounding its economy with high customs walls to get rid of the effects of the crisis in the 1930s pushed other countries to protectionism precautions as well, prices of imported goods increased and as a result, countries