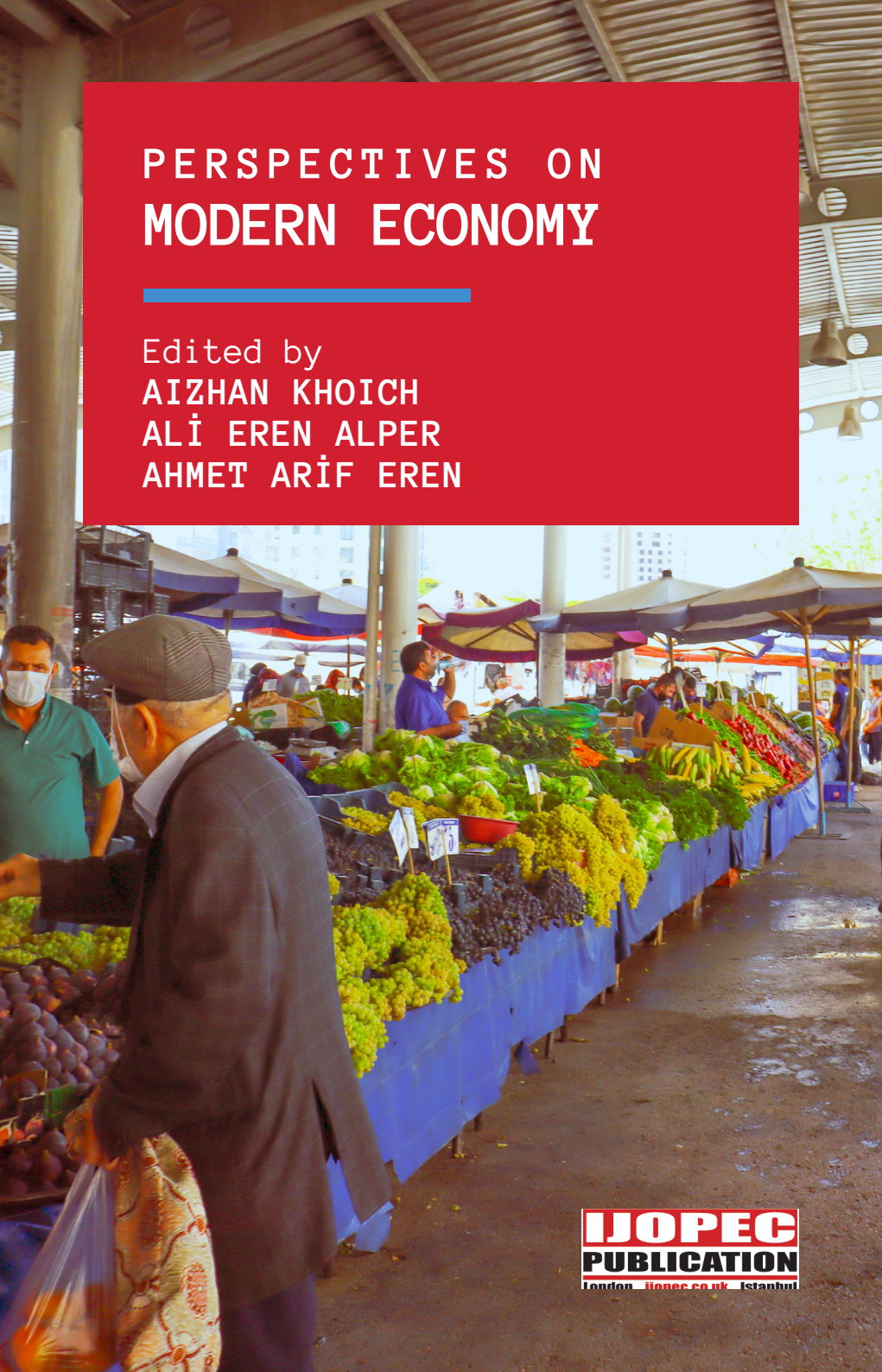
PERSPECTIVES ON MODERN ECONOMY

Edited by
AIZHAN KHOICH
ALİ EREN ALPER
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SECTION II

EXCHANGE RATE

6

GLOBAL COMPETITION AND EXCHANGE RATE DETERMINATION

Yelda Bugay TEKGÜL[1]

Introduction

Some developed countries in the world economy acquire current account surpluses, whereas some incur current account deficits. Table 1 presents the national income per capita, which is one of the important welfare indicators of the countries, and the current account status, which is an important indicator of their relations with the outside world as of 2019. It is observed that among the countries with common development levels, there are those who incur current account *deficits* as well as those who acquire *surpluses*. World trade and capital movements exhibit an out-of-balance view on a global scale[2]. In the first phase, it can be expected that developed countries would acquire surpluses, and developing countries would incur deficits. Undoubtfully, the current account surplus or deficit may differ due to reasons and results in terms of countries. However, *standard foreign trade theories* (SFTT) seem to insist on the Notion that such deficit or surplus would constitute a *balance* by eliminating these deficits or surpluses in the long-run with the economic consequences they generate. On the other hand, per capita GDP, which is one of the important welfare indicators of a country, also varies significantly. For instance, the US economy, which is the largest economy in the world, has the largest current account deficit and achieves the highest per capita income. However, China, with the second-largest economy in the world, has a current account surplus, and a per capita income much lower than the USA (see Table 1).

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2 The concept of "balance" is frequently discussed in economic theory. What is meant here involves the difference among the rates of change of economic magnitudes.

Table 1: Current Accounts of the Selected Countries (Billion USD-2019) and Per Capita GDP-Current USD-2019)

Countries	Surplus	Per Capita Income	Countries	Deficit	Per Capita Income
China	141,335	10,200	**USA**	498,350	65,280
Germany	274,504	46,250	**United Kingdom**	106,885	42,300
Italy	58,933	33,180	**Brazil**	49,451	8,717
Japan	184,539	40,240	**Canada**	35,409	46,197
Kuwait	33,788	32,030	**France**	18,548	40,493
Russsian Federation	64,607	11,585	**Chili**	9,157	14,896
Saudi Arabia	49,842	23,139	**Argentina**	3,461	10,006
Singapur	63,139	65,233	**Mexico**	2,443	9,863

Source: *Data.imf.org/regular.aspx?key=62805740 Access Date 07.19.2020*

SFTT asserted that financial and trade liberalization leads to advanced commercial relations, acceleration of economic growth, swifter technological change, and allocation of nation's resources to efficient exportable goods. The structure of the neoclassical (Orthodox) theory underlies all these results. The view put forward as an economic policy suggests that the best option of economic development is to open the country to world markets; to remove foreign trade protectionism, to open financial markets, and to privatize public enterprises (Shaikh, 2016: 495-496). It is well-known that the economic policy extensions of these views are conducted by global institutions such as the IMF and the World Bank. Despite this, serious criticism is on the rise from these organizations.[3] There is evidence that financial liberalization has historically made the real exchange rate dependent on the volatility of short-term capital flows. This situation connects the domestic interest rate to the international capital markets, thus making it burdensome for the interest rate to be a variable of domestic growth policies (Rodrik, 2001: 23).

The competition-based theoretical explanation of international trade is based on Ricardo's work entitled *Principle of Comparative Advantages*. Based on the example of a country with a more developed capital and a less developed country,

3 The most widespread and influential criticism on this subject came from Joseph Stiglitz, whose repercussions still persist. See Stiglitz, Joseph (2002), "Globalism's Discontents" *American Prospect*, January 4. http://prospect.org/aticle/globalism-discontent

Ricardo argued that the export revenues of the country with developed capital would exceed the import expenditures, in turn, it results in the inflow of funds and the money supply would increase. In the country with less efficient capital, on the contrary, the money supply decreases. In theory, the increase in the money supply would boost prices and costs in the developed country, while decreasing them in a less developed country. Thus, while the cost advantage of the developed country decreases, the other country would better-off. As a result, the imbalance in foreign trade would cease to exist.[4]

As can be seen clearly from Table 1, today's economies present a different view from Ricardo's views. Therefore, in explaining global competition, approaches based on Ricardo's views are criticized and new views are put forward. Since Ricardo's views are based on a price (cost)-oriented analysis, the criticisms are realized through the determination of the exchange rate. Therefore, the first part of this book chapter is devoted to examining two neoclassical-based exchange rate determination models, the first being *the monetary approach* model and the second *the portfolio balance approach* model. In the second part, alternative exchange rate determination approaches are discussed. In the last part, criticism of Ricardo's *principle of comparative advantage*, which represents the neoclassical spirit that is widely used in explaining global competition, is emphasized.

1. Standard Exchange Rate Models

By the end of WWII, capital has become the main subject of international transactions with an increasing speed. Despite the motivation of the Bretton Woods system established in the post-war period to control capital flows, the Eurodollar market began to emerge by the end of the 1950s, and the European money market played a crucial role in determining the exchange rate until the end of the Bretton Woods system.

Throughout the period from 1973 until today, capital mobility, which increased for various reasons, has been playing a dominant role in determining the exchange rate. Nonetheless, organizations such as the IMF and WB continue to rely on two theoretical explanations that are examined below. [5]

4 In this analysis, it is seen that Ricardo is in favor of the "quantity theory of Money".
5 Harvey (1996) is utilized in explaining these models.

1.1. Monetary Approach Model

The *monetary approach* model used in determining the exchange rate is a model directly derived from the *monetarist approac*h. The model includes 3 basic assumptions:

i. Prices and wages are perfectly elastic.

ii. Money demand is stable.

iii. PPP is valid all the time.

The first two assumptions are crucial, the third assumption is of vital importance in determining the exchange rate. The following equation is generally estimated in applied studies:

$$s = (m\text{-}m^*) + \varphi(y^*\text{-}y) + (k^*\text{-}k) + \vartheta(i\text{-}i^*) \quad (1)$$

Among the notations in Equation 1, s denotes the exchange rate, m denotes the money supply, y denotes real income, k denotes the ratio of the desired money balances to nominal income, φ denotes the income elasticity of the money demand, and ϑ denotes the interest elasticity of the money demand. The asterisk indicates foreign country variables (the variables are in logarithmic form). Equation 1 indicates the monetary exchange rate model determined by purchasing power parity.[6] In this model, the fact that variables move together between countries would also bring up the validity of *the law of one price*.

Interest rate (i), one of the variables in the model, is determined in international financial markets depending on the capital flows in the real world, apart from the assumptions of this model. Nevertheless, in the monetarist Equation 1, the interest rate is tied to the cash demand, thus affecting the price level, hence, the exchange rate. In fact, the rise in the domestic interest rate renders the domestic assets alluring to foreigners in the international capital market and the national currency is appreciated. However, such an outcome is not predicted in the monetary model. Instead, an increase in the domestic interest rate decreases the demand for cash assets and creates a surplus in the money supply. Thus, domestic

6 PPP, in its most general definition, is an approach that suggests the changes in exchange rates between the currencies of the two countries within a certain period are determined according to the difference in the relative price levels of the two countries. In the relative PPP approach, it is asserted that the higher the inflation rate in a country compared to the foreign country, the higher the exchange rate should be.

prices rise and the national currency is depreciated. The outcome predicted by the monetary model does not fit in the real world. As a result, the monetarist model does not attribute a role to capital movements in determining the exchange rate. Although the model lacks strong empirical support, it remains popular (by carrying on the neoclassical tradition) due to its pro-free-market feature.

1.2. Portfolio Balance Model

In the Portfolio Balance Model, international capital flows are deemed necessary in determining the exchange rate. In this model, investors prefer three types of assets: national bonds, foreign bonds, and domestic currency. As an important assumption, there is no substitution between national bonds and foreign bonds. Therefore, interest rates may differ. In the simple version of this model, a small country model, in which the citizens of this country can hold foreign assets whereas the foreigners are not allowed to hold any assets, is used. In this case, nominal assets can be expressed as follows:

$$W=M+B+SF \tag{2}$$

W denotes the net financial asset of the private sector, M denotes the money supply, B denotes the value of national bonds, F denotes the value of foreign assets held domestically, and S denotes the exchange rate. The demand for each component of national assets is defined as follows: r denotes the yield on national bonds, r^* denotes the yield on foreign bonds. Signs represent the direction of the effect on the dependent variable.

$$M= m(r, r^*) \tag{3}$$
$$\quad -, -$$
$$B= b(r, r^*) \tag{4}$$
$$\quad +, -$$
$$F=f(r, r^*) \tag{5}$$
$$\quad -, +$$

This model can be considered as a more advanced model in comparison to the monetary approach model. It primarily concentrates on profit maximization in the capital market and investors' portfolio selection. Another advantage of this model involves a causality from the interest rate toward the exchange rate by focusing on

the asset market in accordance with the real world. For instance, when the interest rate is reduced by implementing monetary policy, investors would purchase foreign bonds, and the price of foreign currency would increase. The changes to be made by the investors in the portfolio decisions in the model may occur due to the decisions to be taken by the government and the current account imbalances. When a current account surplus occurs in the country, such surplus can be used to purchase foreign bonds and the foreign currency is depreciated. The foreign currency depreciation would eliminate the current account surplus.[7] The change in portfolio decisions is due to both the government policies and the current account imbalances.

Changes in the players' expectations regarding the foreign exchange market cause frequent and rapid changes in portfolio decisions.[8] This model failed to acquire specific integrity that includes expectations and the result of changes in expectations. Empirical studies could not indicate that this model was powerful. Nonetheless, unlike the monetarist model, it provides an explanation for the exchange rate volatility by allowing overshooting of the exchange rate and trade imbalances.

2. An Alternative Approach of Real Exchange Rate Determination

Both models described above reflect the spirit of neoclassical economic understanding. The situation presented in Table 1 seems far from reflecting a *balance* in terms of both individual welfare and current account, representing the world's important developed economies. There is an imbalance in the world economy that is not compatible with the predictions of Ricardo's "Principle of Comparative Advantages". A Ricardian understanding of competition, which claims that the exchange rate would achieve balance in foreign trade, does not find a counterpart at the global level and in the real world. Therefore, alternative exchange rate determination models have become widespread in the economics literature. The Post-Keynesian approach from the heterodox views emerged in the late 1970s in comprehending the dynamics of the exchange rate volatility in the international financial and monetary system (IMFS) that came to existence following

7 If the prices in the goods market cannot temporarily provide the necessary harmony in the short term and, an exchange rate overshooting may occur. An imbalance in the current account would be automatically offset when the exchange rate reverts to its balance level in the long-run.

8 This result may occur even if there is no policy decision or an imbalance in the current account.

the Bretton Woods system. Post-Keynesian approach to exchange rates (Davidson, 1998; Dow, 1999; Harvey, 1991, 1996, 2006, 2007, 2009, 2017) is based on the view that capital movements play an *independent* and *active* role in the economy and it constitutes the basis of the explanations for the determination of exchange rates. Therefore, in this part, the determination of exchange rates is examined within the framework of an alternative approach.

2.1. Exchange Rates and Trade Imbalances

One of the serious problems related to the SFTT is that it bases export and import equality in the long-run on the price mechanism (Purchasing Power Parity-PPP) and Ricardo's "Comparative Advantages Principle". The traditional approach argues that trade among countries would generally achieve balance in the long-run. According to this approach; Exchange rates would reflect the relative domestic prices at the equilibrium point where foreign exchange supply and demand are equalized, and automatic movements in the exchange rate would automatically maintain such balance. In the short-run, deviations in the equilibrium exchange rate would be followed by foreign trade deficits. This principle of neoclassical trade theory would determine which country be more competitive than another. Therefore, if the exchange rate can be managed well enough to achieve and sustain such competition, it would also be able to maintain foreign trade balance. It is assumed that real exchange rates eliminate competition differences in the long-run. Nonetheless, it should be noted that while historical data provide evidence of the persistence of trade imbalances (although different systems such as a managed, fixed, and flexible exchange rate have been implemented), the two principles of foreign trade balance are frequently adopted by economic policymakers (Hernández, 2010: 55-56).

The view that capital movements have an *independent* and *active* role in the country's economy in determining the exchange rate constitutes the basis of Post-Keynesian theoretical explanations and distinguishes this view from traditional economics (Harvey, 2003: 131). In this context, their work aims to explain the actual decision-making process in foreign exchange markets (Ramos and Prates, 2018: 2). In this regard, Schulmeister's (1988, 2009a, 2009b) studies also aim to explain the actual decision-making process within foreign exchange markets in a similar way to Harvey. Since the 1980s, Schulmeister has been analyzing the pattern of exchange rate movements from both the inductive and microstructural

approaches and emphasized that exchange rates do not follow a random movement, but on technical trading systems (spots and derivatives) that have become increasingly important in the foreign exchange market following the 1990s (Schulmeister 2009b).[9] Accordingly, the exchange rate dynamics arise from the interaction of strategies and models used by 'chartist traders' (who decide to trade only based on information contained in past prices). Schulmeister asserted that traditionally traders have two types of expectations regarding exchange rate movements, and the short-term exchange rates are more influenced by political and economic news, whereas the medium-term exchange rates are more inclined to be affected by growth rates, interest differentials among countries, and relative inflation. According to Schulmeister, while foreign exchange trading has experienced a great change within the last two decades, the daily volume of the foreign exchange market has exceeded the world trade volume by approximately forty times and portfolio investments by almost sixty times, and therefore, direct speculation by banks, multinational companies, and other unexpected agents would begin to dominate the market (Schulmeister, 1988: 344). Harvey, on the other hand, based his opinions on Schulmeister's analysis of money markets, but in many of his studies, he especially concentrated on the "mental model" and the behavior of "pro-trade" agents, taking into account the changes in macroeconomic variables while creating exchange rate expectations. Harvey's expectation formation analysis includes Keynesian insights as well as the views of behavioral economists used to explain the forecasting-regulation approaches to the foreign exchange market.

According to Harvey's (2009) "mental model", agents' predictions about regulating expectations are based on three layers:

i. The demand for foreign currency depends on net exports, net foreign direct investment and net portfolio foreign investment;
ii. These are affected by expected domestic and external inflation differences, expected relative macroeconomic growth, expected relative interest rates, and expected liquidity.
iii. Investors keep a list of indicators (such as GDP growth, unemployment rates, etc.) upon establishing expectations for changes in these factors.

9 "Technical analysis" is a broader concept that does not have to be limited to trade. In technical currency trading within the foreign exchange market, investors focus on charts and tables. They monitor the index charts for signs of convergence / divergence that may indicate profitable buy and sell signals.

Harvey (2009) explains the determinants of the exchange rate in the developed mental model with five exchange rate determinants examined by Schulmeister (2009a), besides portfolio investments made based on exchange rate estimates. These consist of *volatility, herd psychology, technical analysis, trade barriers,* and *cash inflows*. According to Harvey, the main debate is all about the reasons for trade imbalances. Do these imbalances occur due to *differences in absolute advantage*, or as a result of the *autonomous portfolio, capital flows* when exchange rates diverge from balanced trading levels ? (Harvey, 2017: 1).

2.2. The Relationship Between Capital Flows & Speculative Movements and the Foreign Exchange Market

Within the framework of the heterodox Post Keynesian approach, capital flows are the main determinants of the exchange rate. Financial capital flows are driven by forecasts in an uncertain speculative market. The value of the exchange rate affects trade flows. The most prominent feature of exchange rates is that they exhibit huge volatility and are chronically set below, or above their value. *Volatility* appears as a deterrent element by including a new cost factor to international trade. Setting a foreign exchange rate above or below its value means that trade imbalances may persist for very long time without achieving balance automatically. The relationship between the volatility of exchange rates and the overvaluation/ undervaluation of exchange rates is illustrated in Figure 1. The daily exchange rate transactions is much higher than what is required for international trade. Therefore, the autocorrection mechanism usually does not function. Because there is a demand for foreign exchange far beyond the demand merely for international goods and services, and the exchange rate, which ensures the trade balance level, cannot be guaranteed not to change (Harvey, 1995: 493-94).

Harvey (1999) discussed the types of demand for foreign exchange and emphasized the relatively essential role of portfolio investments, which is essentially based on speculation. Investors' expectations regarding asset price movements would determine the exchange rate volatility and the current prices of these assets (Harvey, 1999: 201). According to Andrade and Prates, there are historically two fundamental points underlying such volatility: *Firstly*, interest rates and asset prices are exposed to both huge volatility in the short-run and significant changes in the long-run, generating higher volatility in exchange rates. *Secondly*, financial imbalances have a high degree of a spillover effect from the basepoint of the system toward markets and countries that have nothing to do with the main concern (Andrade & Prates, 2013:10).

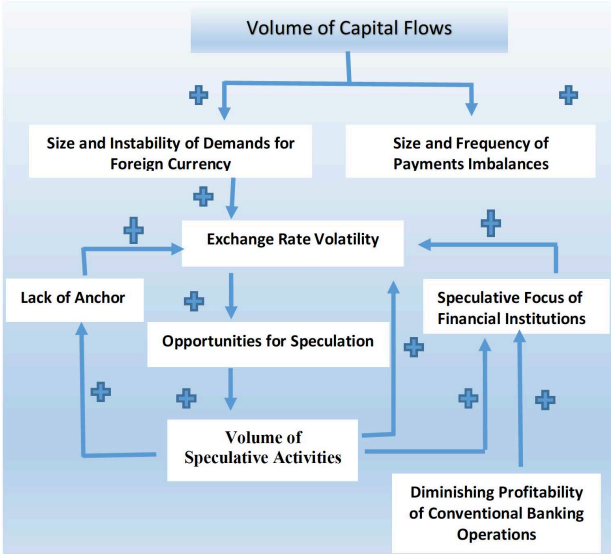


Figure 1. The Effect of Increasing Capital Flows on the Foreign Exchange Market (Harvey, 1995)

The exchange rate volatility is an outcome of the current market structure. Trade flows are inclined to have higher stability than capital flows, especially in the short-run. The most apparent reason for this is the ease with which an international supplier of goods or services may alter the structure of a financial portfolio in comparison to altering its source. As capital flows grow, so does the size and volatility of the demand for foreign exchange. Therefore, if the size increases, the probability of the emergence of the volatility features would also rise. If the foreign currency has the desired properties as an asset, then the currency prices would be much more volatile, increasing the opportunities for speculation on this asset. In this case, upon assuming that there may be individuals who wish to benefit from possible profits, the volume of speculative activities would also increase (Mottif, 1983 as cited in Harvey, 1995: 495). According to Harvey, the increase in the volume of speculative movements result in several consequences, each of which leads to three positive feedbacks that make the role of speculation even more important (see Figure 1).

First of all, the rise in the speculative activities' volume directly causes an increase in the imbalance and size of the demand for foreign currency and, thus stimulates the growth of volatility. *Secondly*, the rising importance of speculative movements would lead to a circumstance in which there is no anchor for exchange rates independent of these speculative powers.[10] Therefore as speculators purchase and sell in pursuit of an unknown future balance, the exchange rate volatility would increase even further. *The third* feedback begins with the impact of increasing speculation volume on foreign exchange activities. With the decrease in the profitability of banks' traditional operations, the increasing speculative activity volume has gradually shifted the focus of these operations of financial institutions toward foreign exchange speculation. The shift in this focus causes the rise of speculative purchases and sales with the profit motive in case of any volatility in the foreign exchange market. If the asset prices are tightly linked to exchange rate volatility, such volatility renders portfolio investment one of the main targets. The fact that exchange rates depend on investors' pursuit of capital gain in the short-run explains the exchange rate volatility during the post-Bretton Woods period. Accordingly, rapidly changing predictions regarding future foreign exchange price movements cause spot prices to change instantly. The reasons behind the rapid change in forecasts concentrate on 6 points: the speculative nature of the foreign exchange market from an alternative perspective, the lack of a real anchor in determining money values, the subculture of foreign exchange buyers and sellers, the way individuals make decisions, the uncertainty, and the impact of herd psychology (Harvey, 1999: 206).

3. Criticism of the Standard Foreign Trade Theories

The competition that emerges in a national economy occurs in the form of firms cutting their prices by reducing their costs and expanding their market share in a way that casts out their competitors. In this process, there is no guaranteed way for one firm to lower its costs more than another. This motivation constitutes the basis of the capitalist production and competition process. Therefore,

10 Exchange rates respond to changes in "basic" variables. These values are assumed to provide the average trend in exchange rates. For such a trend to occur, the factors that determine the demand for foreign exchange must be relatively stable and easy to describe. Moreover, the processes influenced by these factors should be related to foreign exchange trading. Any speculative movement stabilizes since stable and clear movements in the factors that dominate the market can be predicted. However, the general opinion is that speculative movements are the dominant force in the market.

it is inevitable for some companies to go bankrupt. The equivalent of this process experienced in a national economy during international trade is that countries with more efficient production and lower wage levels have a higher chance of success.[11] Smith argued that capital pursues the profit motive regardless of the line of business in which it operates (Smith, 1973: 474). Making production for either domestic or foreign markets does not mitigate the profit motive. Ricardo, like Smith, started out from individual firms that seek profits in various countries.

When international trade is made between less developed and more developed countries, there would be an outflow of capital from the less developed country (net importer) to the developed country (net exporter) and a trade imbalance would arise (in favor of the net exporter). Then, as the national currency supply in the net exporting country increases, prices and costs would rise and the imbalance would disappear.[12] This mechanism continues to function as long as the imbalance persists. Regardless of the initial differences in effectiveness, the two countries eventually become equally competitive. In this situation, free trade creates the result that a low-efficiency (high-cost) country does not need to correct this adverse condition (Shaikh, 1980: 205).[13] Ricardo transformed absolute cost advantages into relative cost advantages in foreign trade and continued the process with the same mechanism. Companies operating in countries should specialize in products with the lowest cost in case cost differences, and leave the production of other products to their competitors in other countries. It is assumed that individual firms that are in pursuit of profits throughout the whole process manage a process that would result in all countries better-off in international trade. The first of the most important criticisms toward this analysis is seen in the reduction of the balance of payments only to the balance of trade. Because the *flow of goods* is separated from *financial flows* in this analysis. Money is seen only as a medium of circulation. Whereas funding capital is intrinsically dependent on the trade of goods (borrowing in the case of deficit, or vice versa). In the real world, *absolute costs* determine foreign trade, not *relative costs*. Countries with less competitive capital constantly run deficits and fill this gap with debt (Shaikh, 2016: 504-509).

11 This approach constitutes the basis of Adam Smith's "Principle of Absolute Advantages". This principle is applied in the same manner in competition within the country and in international competition.

12 A causality between price level and money supply is predicted.

13 The process works the same for flexible or fixed exchange rate (see Shaikh, 2016)

In fact, according to the competition theory, which originates from Keynes and Marx, the *international competitiveness* of an industry or country is mainly based on *absolute production technology* and *labor productivity*. Accordingly, it is the competitive position of the country that determines the exchange rate. It is argued that the differences between real production costs determine international trade conditions, and hence, exchange rates (Milberg, 1994). Upon considering the views of Anwar Shaikh and R. Antonopoulos, it is seen that they modeled competition as a function of the "vertically integrated cost of labor of the producer". The lower these costs, the more likely a country would acquire a trade surplus. Such an advantage does not automatically wear off over time (Shaikh and Antonopoulos, 1998). Post-Keynesians have adopted this approach partially and agreed that the less expensive the labor force in a country, the more trade surplus the country would acquire (Harvey, 2017: 12).

In the alternative approach that Hernández presented in his study as of 2010, he claims that money flows caused by trade imbalances would not fulfill the balance as in the quantity theory of money and that such balance would be achieved through *the exchange rates* proposed by Marx, Keynes, and Harrod (Hernández, 2010: 57). It means that absolute cost advantages would not disappear with money flows and the theory of absolute advantages persists.

It also means that free trade would further increase the trade imbalance, which automatically includes capital flows.

Therefore, a country incurring a trade deficit would become an international debtor. One of the points that Hernández underlined regarding exchange rates in the same study is that, similar to Shaikh and Antonopoulos (1998), the long-term real exchange rates would be determined by vertical real unit labor cost ratios in the tradable sectors of the producing countries.[14] Secondly, the trade deficits or surpluses are not anomalies of the competitively operating market system. Thirdly, the devaluation would not have a permanent influence on the trade balance unless the devaluation is accompanied by a significant change in national real wages or productivity, in other words, production costs.

14 This means that neither absolute nor relative purchasing power parity would apply in general.

Conclusion

The globalization of the world economy emphasizes the importance of international competition. The phenomenon of international competition is explained with some standard views in terms of economic theory. These views also constitute a theoretical basis for organizations such as IMF and WB that steer world trade. The theoretical framework on which the standard views are based relies on the "Principle of Comparative Advantages" put forward by David Ricardo and binds international competition to costs defined by the exchange rate. This theory is represented by the Monetary Approach Model and Portfolio Balance Model, on which organizations such as the IMF and WB are based. The theoretical claim put forward is that free competition would offset foreign trade (current account) with its long-term effect on the exchange rate. The predictions of this theoretical view are incompatible with the data of the world economy. As can be seen in Table 1, there are serious differences in the current account deficits/surpluses of the economies that are predominant in the world economy. Also, per capita national income values, which are among the basic welfare indicators of these countries, differ from each other. Therefore, standard (orthodox) theoretical views do not seem to comply with real-world data, in terms of predicting and explaining global competition. Such inconsistency in which standard theories face the real world brings forth alternative exchange rate determination models (Post-Keynesian explanations, in general) and Ricardo's views are criticized. These criticisms concentrate on the need to prioritize capital flows, production technologies, and unit labor costs between countries, rather than explaining the exchange rate with the relative demand for and supply of foreign currency. Consequently, there are arguments that, instead of the classical views that dominate the determination of exchange rates, the exchange rates are largely determined by the demand for foreign exchange stemming from international investors' efforts to adjust their portfolios, and permanent imbalance of payments arise due to the rise in capital flows dominating the market.

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