The Globalization Paradox: Why Global Markets, States and Democracy Can't Coexist, 

*chapter 4*

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Trade has distributional consequences -> trade policy can never be designed independent of national concerns

Need to understand the political economy of trade through historical development of global institutions - GATT, World Bank, IMF and WTO.
POLITICAL TRILEMMA OF WORLD ECONOMY

Hyper-globalisation

Low international transaction cost

Golden Straitjacket

National sovereignty

Bretton-woods Compromise

Democratic international politics

Min adverse spillover across countries

Domestic policy concerns are imp

Global governance
TRADE PHILOSOPHY POST WORLD WAR II

➤ Lessons of inter-war period internalised -
  - clash between globalisation’s rules and domestic politics led to collapse of Gold standard in 1931
  - Need to create space for domestic policy requirements - Keynesian policies imp since the great depression

➤ Primary concern - How to open trade in an era of domestic policy and nationalism? - Led to the Bretton Woods compromise

➤ Keynes (English economist) and White (US official): architects of the Bretton- Woods system
  - Keen to reduce trade controls, but were aware of domestic political compulsions
  - Realised that rules of international trade need to incorporate safety valves to uphold/protect national interests - scope for Keynesian policies, welfare states etc - A limited globalisation that prioritised domestic needs
BRETTON WOODS 1944

- Bretton Woods' Conference of 44 nations in 1944 established the World Bank, set the gold standard at $35.00 an ounce, and chose the American dollar as the backbone of international exchange -> post war currency stability

- Set the stage for trade for several years

- Key contributions - Birth of IMF, WB (poverty/development focus); GATT (trade focus)

- Underlying economic philosophy: Allow movement towards trade liberalization along with adequate space for the government to respond to domestic socio-economic needs: twin emphasis

- Compromise between cosmopolitan considerations and domestic political motives - 'Domestic policy objectives were not to be constrained in the pursuit of globalisation -> limited globalisation that prioritised domestic needs
MULTILATERALISM – IMP FEATURE OF THIS ERA

➤ Formation of international organisations which would set rules and settle disputes following non-discriminatory principles

➤ Conscious attempt to restrict imperial influence and preferential treatment

➤ Intention was to give a voice to the poorer, weaker nations

Primary multilateral trade institution which had a strong presence for about 50 years: GATT
GATT: GENERAL AGREEMENT ON TARIFFS AND TRADE

- Instituted in 1947; Facilitated multiple rounds of trade negotiations
- Initiated reduction of tariff and other barriers - focus was on reducing barriers primarily tariffs
- Trade volume expanded, output increased (1948—90)
- Capital controls still remained but ERs were flexible
- Limited globalisation -> transaction costs were still high
- Redressal mechanism to deal with trade issues between countries - democratic voting process (democratic international politics)
Author's critique: GATT

- Reduction of barriers was not the true reason behind globalisation

- GATT did not intend to explicitly promote globalisation but was a compromise between national sovereignty and democratic international politics -> limited globalisation

- Several exemptions under GATT—there was restricted trade in several areas
  - Agriculture, services
  - Textiles (MFA)
  - Auto/steel (VER)

- Protection to developing countries

- Legal loopholes exploited by industrialised countries to gain protection

- Enforcement procedure was lax -> limited enforceability
What drove globalisation then?

➤ **Emphasis of BW on domestic growth, equity, stability helped expand trade** -

- Once countries felt secure about their growth prospects, they became more willing to participate

- Even in the presence of trade controls, world economy flourished due to healthy national economies

➤ **GATT's true contribution** - didn’t do much for freeing trade but Still not "unsuccessful"

*Underlying objective was not to free trade further but to allow every nation to pursue its socio-economic objectives within a broad, but not imposing framework of international cooperation*
WTO Regime: Era of Deep Integration - Hyper-globalisation

- Established 1995 under Uruguay round

- **Shift in trade philosophy** - move towards hyper-globalisation
  1. Integration of goods market along with financial capital movements
  2. Domestic economic management became subservient to this goal

    - Tight fiscal policy
    - Low corporate taxation
    - Deregulation
    - Reduction of power of unions

- **Why such a shift? GATT's success misconstrued**

  A. Prosperity attributed to multilateral trade liberalization: WTO attempted to take this further

  B. Ideological shift: "neo-liberalism" (1980s onward)
    - (Over-) optimism about merits of market
    - Little confidence in the role of government/effectiveness
    - Simplistic view of trade was propagated - remove all barriers, promote privatisation
WTO's "accomplishments"

- **Broader coverage of negotiations**
  - Agriculture, service
  - Phasing out of import quotas
  - MFA phased out

- **Standardized rules**
  - Focus on intellectual property rights
  - Increased emphasis on health/safety regulations
  - Restriction on use of govt subsidies
  - Industrial policy also made to toe the line

- **Dispute settlement system reformed: evasion became difficult**
  - WTO exerted its influence even on the US
  - Countries now challenged each other on tax systems, food safety rules, environmental regulations, industrial policies

Transaction costs reduced and democratic politics became imp but national sovereignty was compromised on
SOURCE:

➤ https://www.learnpick.in/prime/documents/ppts/details/1522/globalization

➤ Dani Rodrick, The Globalisation Paradox, ch 4