

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

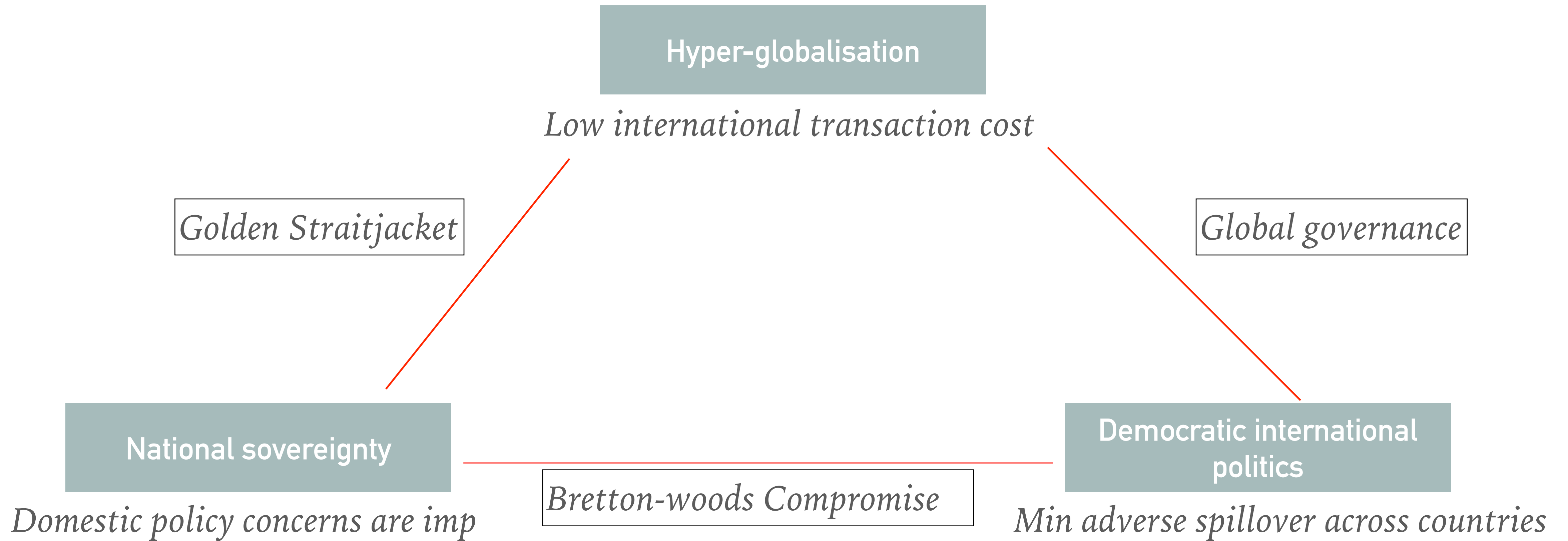
chapter 4

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INTRODUCTION

- 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



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

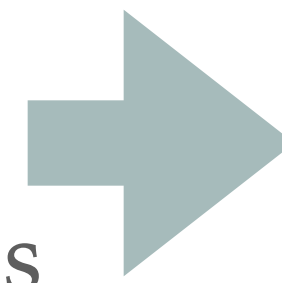
WTO's "accomplishments"

➤ 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



Developing countries had to bring these in line with advanced nations

➤ 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