Put globalization to work for democracies

By Dani Rodrik
September 17, 2016 – *The New York Times*

A Chinese student once described his country's globalization strategy to me. China, he said, opened a window to the world economy, but placed a screen on it. The country got the fresh air it needed — nearly 700 million people have been lifted from extreme poverty since the early 1980s — but kept mosquitoes out.

China benefited from the flourishing of trade and investment across national borders. For many, this was the magic of globalization.

But it's not the whole story. Look closely at the economies that converged with richer counterparts — Japan, South Korea, China — and you see that each engaged globally in a selective, strategic manner. China pushed exports, but it also placed barriers on imports to protect employment in state enterprises and required foreign investors to transfer know-how to domestic companies.

Other countries that relied on globalization as their growth engine but failed to put in place a domestic strategy became disillusioned. For example, few countries tried as hard as Mexico to integrate with the world economy, through Nafta and liberal trade and financial policies. Yet the country's economic growth in recent decades has been sluggish, even by the modest standards of Latin America.

The bigger worry today is that unmanaged globalization is undermining democracy. Democratic politics remain tethered to nation-states, while institutions that make the rules for global markets are either weak or seem too distant, especially to middle- and lower-class voters.

Globalization has deepened the economic and cultural divisions between those who can take advantage of the global economy and those who don't have the resources and skills to do so. Nativist politicians like Donald J. Trump have channeled the resulting discontent as hostility to outsiders: Mexican or Polish immigrants, Chinese exporters, minorities.

We need to rescue globalization not just from populists, but also from its cheerleaders. Globalization evangelists have done great damage to their cause not just by underplaying the real fears and concerns on which the Trumps of this world thrive, but by overlooking the benefits of a more moderate form of globalization.

We must reassess the balance between national autonomy and economic globalization. Simply put, we have pushed economic globalization too far — toward an impractical version that we might call "hyperglobalization."

The transition to hyperglobalization is associated with two events in particular: the Organization for Economic Cooperation and Development's decision in 1989 to remove all restrictions on cross-border financial flows, and the establishment in 1995, after almost a decade of negotiations, of the World Trade Organization, with wide-ranging implications for domestic health and safety rules, subsidies and industrial policies.

The new model of globalization stood priorities on their head, effectively putting democracy to work for the global economy, instead of the other way around. The elimination of barriers to trade and finance became an end in itself, rather than a means toward more fundamental economic and social goals. Societies were asked to subject domestic economies to the whims of global financial markets; sign investment treaties that created special rights for foreign companies; and reduce corporate and top income taxes to attract footloose corporations.

Some simple principles would reorient us in the right direction. First, there is no single way to prosperity. Countries make their own choices about the institutions that suit them best. Some, like Britain, may tolerate, say, greater inequality and financial instability in return for higher growth and more financial innovation. They will opt for lower taxes on capital and more freewheeling financial systems. Others, like Continental European nations, will go for greater equity and financial conservatism. International firms will complain that differences in rules and regulations raise the costs of doing business across borders, but their claims must be traded off against the benefits of diversity.

Second, countries have the right to protect their institutional arrangements and safeguard the integrity of their regulations. Financial regulations or labor protections can be circumvented and undermined by moving operations to foreign countries with considerably lower standards. Countries should be able to prevent such "regulatory arbitrage" by placing restrictions on cross-border transactions — just as they can keep out toys or agricultural products that do not meet domestic health standards.

For example, imports from countries that are gross violators of labor rights, such as Pakistan or Vietnam, may face restrictions when those imports demonstrably threaten to damage labor standards at home. Otherwise, national institutional diversity would be meaningless. Emphasizing the primacy of norms and social bargains embedded in our domestic regulations would ensure that global commerce was not used to override them. It would also shield us from misguided protectionism in the great majority of cases where trade poses no danger.

Third, the purpose of international economic negotiations should be to increase domestic policy autonomy, while being mindful of the possible harm to trade partners. The world's trade regime is driven by a mercantilist logic: You lower your barriers in return for my lowering mine. But lack of openness is no longer the binding constraint on the world economy; lack of democratic legitimacy is.

It is time to embrace a different logic, emphasizing the value of policy autonomy. Poor and rich countries alike need greater space for pursuing their objectives. The former need to restructure their economies and promote new industries, and the latter must address domestic concerns over inequality and distributive justice. Both objectives require placing some sand in the cogs of globalization. For example, developing nations may be allowed to subsidize some industries in return for rich nations being allowed to use tariffs against countries "dumping" goods produced under substandard labor or environmental standards.

Fourth, global governance should focus on enhancing democracy, not globalization. Global governance cannot overcome major problems like inequality, social exclusion or low growth, but it can help by devising norms that improve domestic policy making, like requirements on transparency, public deliberation, broad representation, accountability and use of scientific or economic evidence in domestic proceedings. To some extent, the World Trade Organization already advocates these disciplines. They deserve greater priority over trade liberalization and regulatory harmonization.

And finally, nondemocratic countries like Russia, China and Saudi Arabia — where the rule of law is routinely flouted and civil liberties are not protected — should not be able to count on the same rights and privileges in the international system as democracies can. When a nation is not democratic, we can no longer presume that its institutional arrangements reflect the preferences of its citizens. Therefore it lacks a prima facie argument for shielding its market rules from international scrutiny. It would be appropriate

for democracies to consider less permissive rules for them — for example, by requiring a higher burden of proof from non-democracies when they file a trade complaint against democracies.

When I present these ideas to globalization advocates, they say the consequence would be a dangerous slide toward protectionism. But today the risks on the other side are greater, namely that the social strains of hyperglobalization will drive a populist backlash that undermines both globalization and democracy. Basing globalization on defensible democratic principles is its best defense.

Globalization, within limits, has been good economics. Globalization, within limits, can be good for our democracies, too.

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