

Course 10

From the Globalisation Paradox and
Trilemma to De-Globalisation

Class Outline

- Dani Rodrik, *The Globalisation Paradox*, 2011 and the “political trilemma” of the global economy
- The end of multilateralism through GATT/WTO
- The retreat from globalisation:
 - 1/ GFC > Brexit and Trumpism
 - 2/ the ambiguities of Covid-19
 - 3/ the war in Ukraine and the end of globalisation (Larry Fink)

Dani Rodrik, *The Globalisation Paradox*, 2011

Rodrik challenges the deeply held belief in economics that trade is obviously beneficial.

In particular, he notes that the **redistribution** of income from trade is huge compared to the efficiency gain!

E.g. if average tariffs are 5% (as in the US) then a move to complete free trade reshuffles more than \$50 of income for each \$1 of efficiency.

The lower tariffs are, the greater the redistribution effect of further tariff reductions.

For low skilled workers, international trade has been bad news throughout their lives.

Branko Milanovic's Elephant Curve

Winners and losers

Change in real income, at purchasing power parity, between 1988 and 2008 (%)

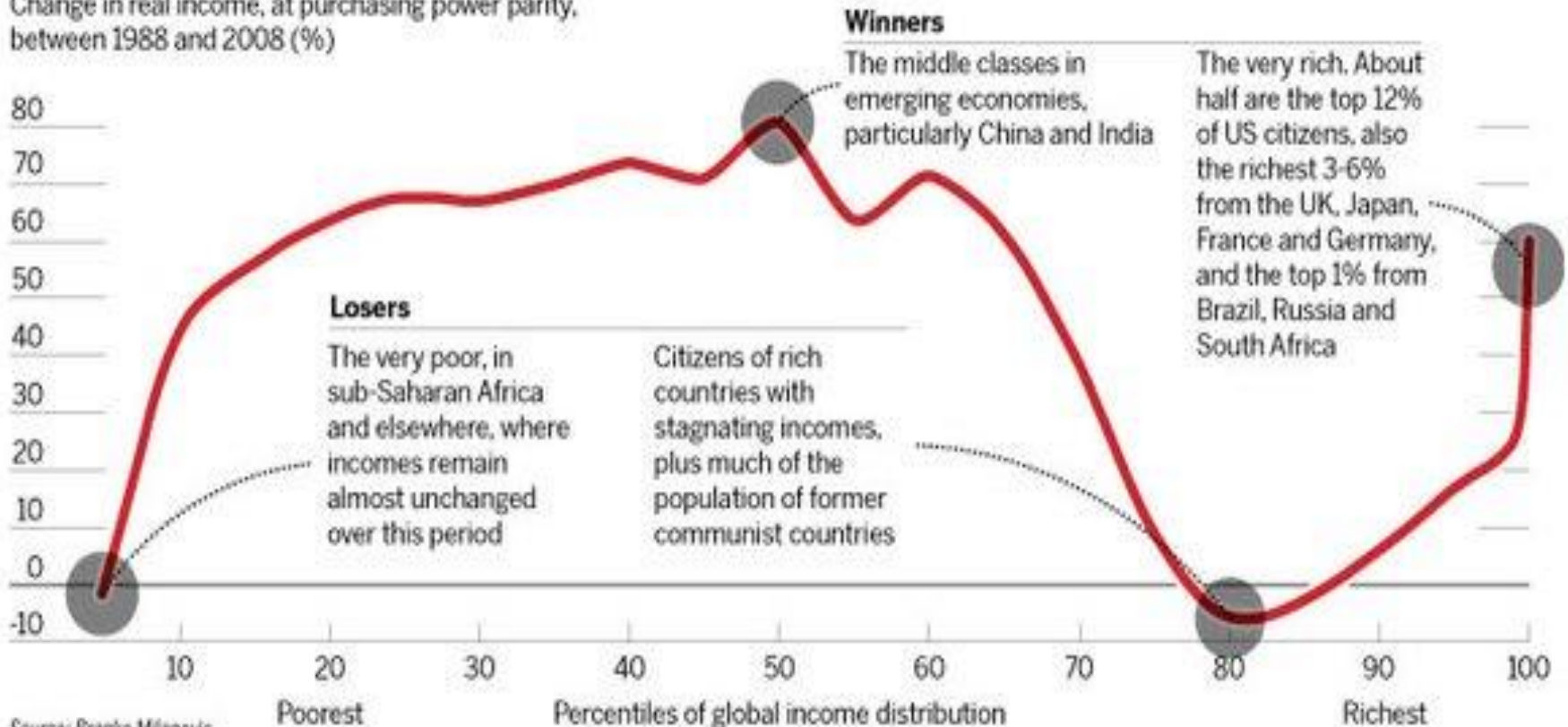


Table 4.1 Two Models of Interest-Group Competition over Trade Policy

Source: Thomas Oatley, *International Political Economy: Sixth Edition*, Routledge, 2019.

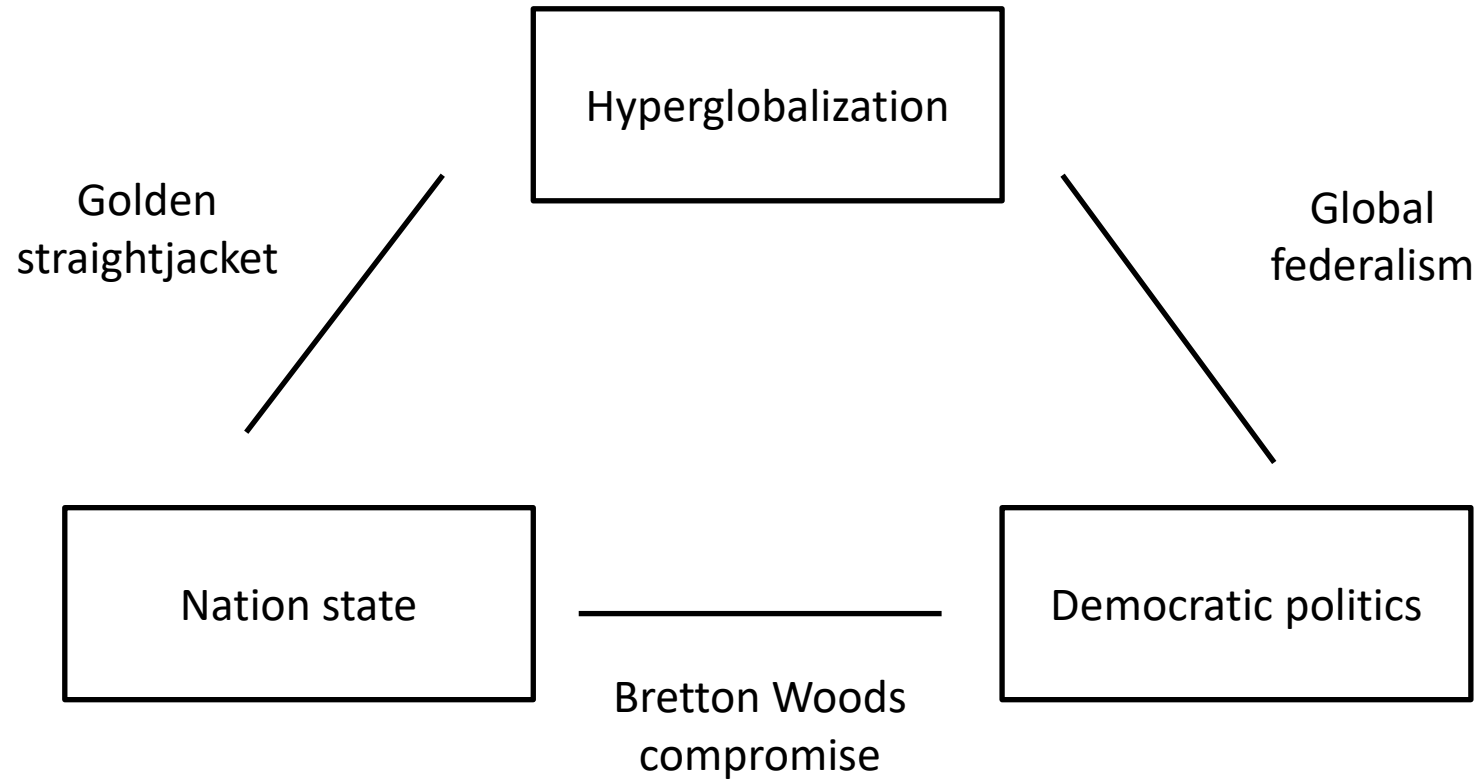
	The Factor Model	The Sector Model
The principal actors	Factors of production or classes	Industries or sectors
How mobile are factors of production?	Perfectly mobile across sectors of the economy	Immobile across sectors of the economy
Who wins and who loses from international trade?	<i>Winners</i> : abundant factor - capital in the advanced industrialised countries	<i>Winners</i> : labour and capital employed in export-oriented industries
	<i>Losers</i> : scarce factor – labour in advanced industrialised countries	<i>Losers</i> : labour and capital employed in import-competing sectors
Central dimension of competition over trade policy	Protectionist labour versus liberalising capital	Protectionist import-competing industries versus liberalising export-oriented industries

Correlation between openness and size of public sector

- Yale teacher David Cameron (1978):
Nations with open economies were far more likely to experience an increase in the scope of public funding than were nations with relatively closed economies.

Rodrik confirms relationship: to preserve legitimacy of markets and trade, governments expand social insurance to protect people.

The Political Trilemma of the World Economy



The Political Trilemma of the World Economy

- How do we manage tension between national democracy and global markets?

1/ restrict democracy, to minimize international transaction costs, disregard economic and social whiplash global economy occasionally produces. The “Golden straightjacket” of gold standard before World War I.

The Political Trilemma of the World Economy (continued)

2/ global governance – global democracy

Perhaps this could grow out of today's international networks of policy makers.

Rodrik: skeptical on substantive grounds – there is simply too much diversity; global standards and regulations not just impractical, but undesirable.

Weak government would result form lowest common denominator of global governance.

The Political Trilemma of the World Economy (continued)

- **3/ sacrificing hyperglobalisation**
 - The “Bretton Woods compromise” – some restrictions on trade removed.
 - But capital controls possible (even encouraged)
 - And national policies possible.

The end of multilateralism through GATT/WTO

Is multilateral liberalisation over?

- International trade liberalisation 1947-1994
 - GATT – trade rounds – mainly liberalisation of manufactured goods
 - Uruguay Round 1986-1994
 - Extended to textiles, services and agriculture (to some extent), investment and intellectual property protection
 - Creation of WTO: dispute settlement procedures

The prisoners' dilemma in trade negotiations (source Oakley)

		European Union	
		Liberalize	Protect
G-20	Liberalize	L,L <i>I</i>	L,P <i>II</i>
	Protect	P,L <i>IV</i>	P,P <i>III</i>

Preference Orders:

G-20: $P,L > L,L > P,P > L,P$

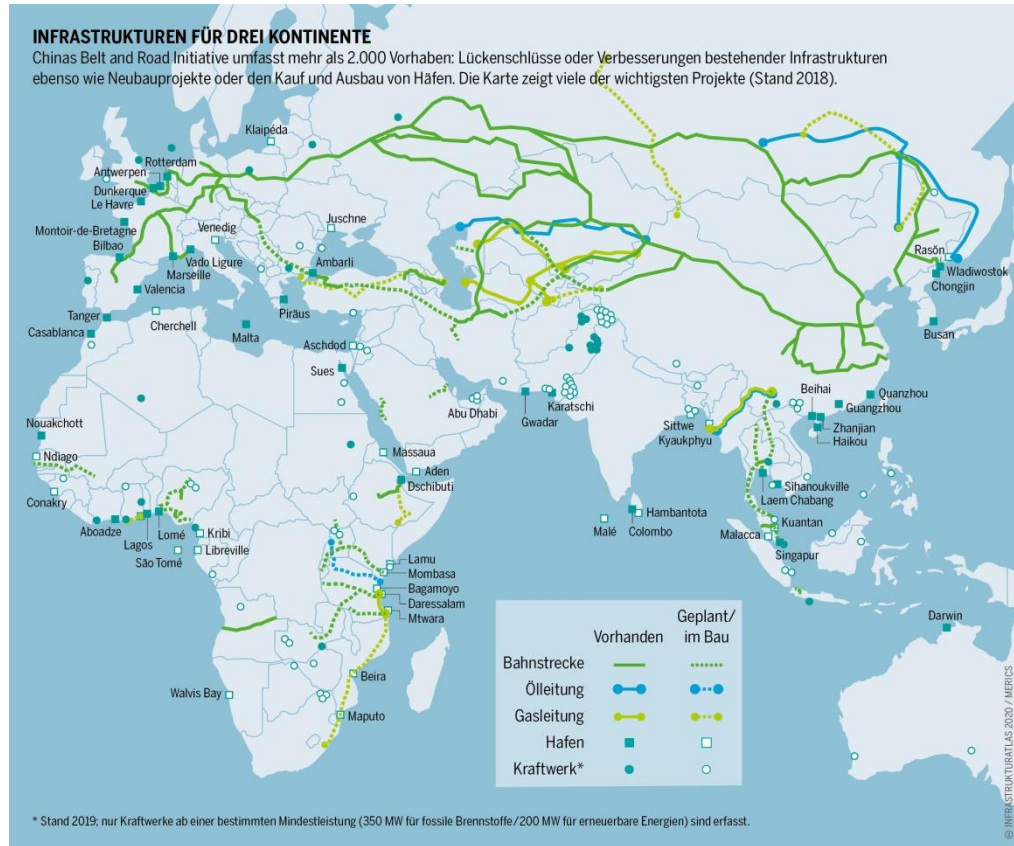
European Union: $L,P > L,L > P,P > P,L$

Is multilateral liberalisation over? (continued)

- The WTO Doha Round collapsed 2008
- The US refused to accept Chinese and Indian demands for safeguards to protect poor farmers from surge in agricultural imports
- Major regional negotiations – “Outside options”?:
 - Free Trade Area of the Americas (1994 to 2006), ended in failure.
 - Trans-Pacific Partnership/TPP (2005-2016) led by US to offset rise of China in Asia. Agreed, but Trump withdrew in January 2017 (see below).
 - Transatlantic Trade and Investment Partnership (TTIP): 2013 onwards – very controversial with civil society; negotiations suspended after election of Trump – for the moment

The rise of China (and India?)

China – Belt and Road Initiative (2013) - Asian Infrastructure Investment Bank (AIIB)



India – more a policy of non-alignment?

The retreat from globalisation:

- 1/ GFC > Brexit and Trumpism
- 2/ the ambiguities of Covid-19
- 3/ the war in Ukraine and the end of globalisation
(Larry Fink)

Brexit Referendum 23 June 2016

- 52 percent vote to Leave EU? But why? And how?
- EU became focal point of discontent after financial crisis, and pressure on public spending --> welfare cuts
- Significant immigration into UK: 300,000 per year 2014-2015 (from EU and elsewhere)
- “Take back control” – slogan of Leave campaign found much support

Brexit continued

- Result was unexpected
- Consequences are highly complex – affecting all areas of the economy.
- UK government policy set out January 2017:
 - to leave EU customs union (to strike independent trade deals);
 - to leave Single Market – free circulation of goods, services, capital and labour – to get control over border movements
 - to negotiate a free trade deal

Brexit: “divorce” and Trade and Cooperation Agreement, 24/12/2020

- The “divorce”:
 - Budget commitments (about £39 billion);
 - Citizens’ rights
 - Maintaining an open border in NI.
- End January 2020, UK leaves EU, end Dec 2020, UK leaves Customs Union and Single Market
 - No tariffs and quotas (self-certification rules of origin)
 - But customs formalities (phyto-sanitary declarations) and VAT
 - Trade in services, building on WTO rules: no deal on financial services; no 5th freedom in air transport
- Issues still unresolved:
 - Northern Ireland; UK customs controls (food); finance

Election of Donald Trump & Trumpism?

- Trump elected on a nationalist platform: Make America Great Again – America First
- In January 2017 – pulled out of TPP (but US may now re-enter)
- NAFTA > USMCA US Mexico Canada Agreement (75% content for cars; US dairy producers access to Canada; end to investor-dispute settlement; sunset clause, 15 years)
- Steel tariffs announced March 2018
- Reciprocal threats by US and China on trade war...???
- Trade threats to Europe – protection of car industry as a strategic sector
- Trump administration has not appointed members to the WTO trade disputes body, effectively paralysing it.

From Trump to Biden

- Still too early to tell what will happen.
- Support for international institutions, and rules-based international relations.
- Strategic rivalry with China – the major issue for the future, as China's influence spreads:
- Road and Belt Initiative
- March 2021 – China-Iran sign a \$400 billion, 25 year deal
- Covid vaccine diplomacy

Covid-19 pandemic: exploded March 2020

- Response mainly nation-state based: though there is some essential cooperation
- Policies in some way chaotic
- Major, global – and successful – push on vaccines
- But vaccines rollout is vastly unequal
- Hard to detect an overall global strategy so far – in contrast to G20 after GFC

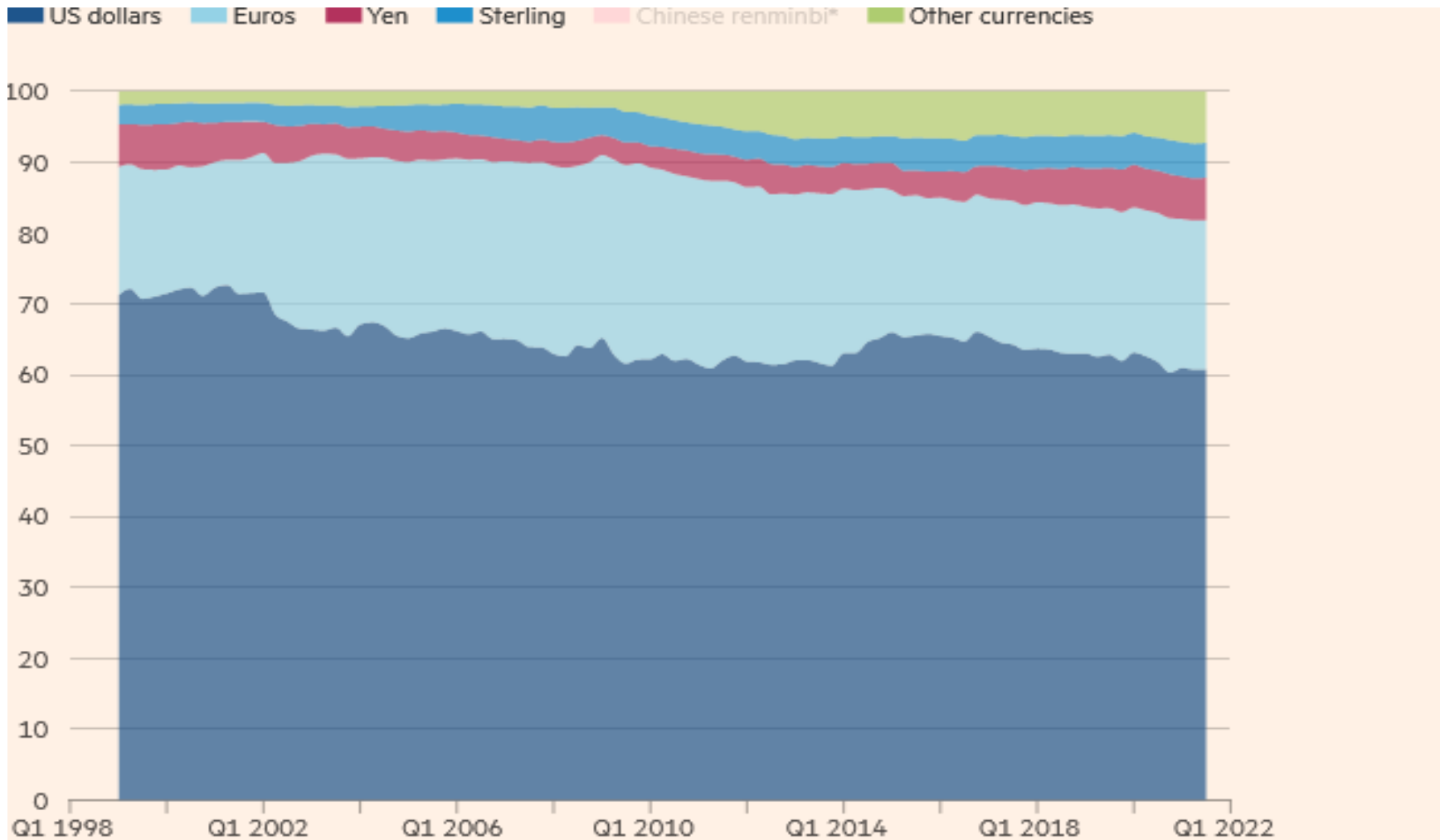
24 February 2022 – War in Ukraine and the end of globalisation?

- (Apart from the terrible human tragedy), some significant short-term shocks: mainly food supplies (possibly serious in Africa)
- Big hit to energy supplies to Europe – prices and possibly quantities of fossil fuels (gas)
- Some significant investment losses in Russia
- Huge material destruction in Ukraine

Longer term consequences

- Fragmentation of global economy into blocs
- US – China rivalry
- The Global South – non-aligned (at present)
- Dollar dominance underpins the post-WWII international economic order

Currency composition globally allocated foreign reserves (FT 7 April 2022)



Take Outs

- Globalisation creates(ed) (angry) losers (Sandel, The Tyranny of Merit, 2021)
- “Revenge” of nation-states
- Economic rationality and economic integration do not always hold > limits to int’l trade theory
- New super-power rivalry – a splintered world
- Threats to global cooperation (climate change, pandemics, plastics, etc.)