

The cheerleaders' threat to global trade

By Dani Rodrik

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Which is the greatest threat to globalisation: the protesters on the streets every time the International Monetary Fund or the World Trade Organisation meets, or globalisation's cheerleaders, who push for continued market opening while denying that the troubles surrounding globalisation are rooted in the policies they advocate?

A good case can be made that the latter camp presents the greater menace. Anti-globalisers are marginalised. But cheerleaders in Washington, London and the elite universities of north America and Europe shape the intellectual climate. If they get their way, they are more likely to put globalisation at risk than the protesters they condemn for ignorance of sound economics.

That is because the greatest obstacle to sustaining a healthy, globalised economy is no longer insufficient openness. Markets are freer from government interference than they have ever been. Import restrictions such as tariff and non-tariff barriers are lower than ever. Capital flows in huge magnitudes. Despite barriers, legal and illegal immigration approaches levels not seen since the 19th century.

Consequently, no country's growth prospects are significantly constrained by a lack of openness in the international economy. Even if the Doha trade round fails, poor countries will have enough access to rich country markets to achieve what countries such as China, Vietnam and India have been able to do. Closed markets may have been a fundamental problem during the 1950s and 1960s; it is hard to believe they still are. The greatest risk to globalisation is elsewhere. It lies in the prospect that national governments' room for manoeuvre will shrink to such levels that they will be unable to deliver the policies that their electorates want and need in order to buy into the global economy.

Globalisation's soft underbelly is the imbalance between the national scope of governments and the global nature of markets. A healthy economic system necessitates a delicate compromise between these two. Go too much in one direction and you have protectionism and autarky. Go too much in the other and you have an unstable world economy with little social and political support from those it is supposed to help.

If there is one lesson from the collapse of the 19th century version of globalisation, it is that we cannot leave national governments powerless to respond to their citizens. The genius of the Bretton Woods system, which lasted for about three decades after the second world war, was that it achieved such a compromise. Some of the most egregious restrictions on trade flows were removed, while allowing governments freedom to run independent macroeconomic policies and erect their own versions of the welfare state. Developing countries were free to pursue their own growth strategies with limited external restraint. The world economy prospered like never before.

But what about China and India, which have taken off in the past quarter-century? Are they not proof that poor nations need the current variant of globalisation instead of the Bretton Woods variant?

Actually, no. What is striking about China, India and a few other Asian countries that have done well recently is that they have played the globalisation game by the Bretton Woods rulebook. These countries did not significantly liberalise their import regimes until well after their economies had taken off; they continue to restrict short-term capital inflows. They have used industrial policies - many banned by the WTO - to restructure their economies and enable them to better take advantage of world markets.

Rich and poor nations need breathing space for different reasons. Rich countries need it so they can revive the social compacts that underpinned the success of Bretton Woods. They need flexibility to interfere in trade when trade conflicts with deeply held values at home - as, for example, with child labour or health and safety concerns - or severely weakens the bargaining power of workers. Poor nations need room to engage in exchange rate and industrial policies that will diversify and restructure their economies, without which their ability to benefit from globalisation is circumscribed.

It is time, then, to consider a new bargain. When rich and poor nations come together to negotiate the rules of the game they should stop thinking in terms of exchanging market access: "I will open my markets in x if you open yours in y." They should consider instead exchanging policy space: "I will allow you to protect your national social compact if you allow me to engage in development strategies that conflict with WTO and International Monetary Fund rules of good behaviour." The challenge is to design procedures that enable the use of policy space for socially desirable purposes while limiting it for beggar-thy-neighbour purposes.

Risky? Yes. There is always the chance that such an approach would slide into protectionism, pure and simple. But the alternative is, if anything, more risky. Historians teach us that globalisation rests on delicate social and political pillars. The first order of business today is to strengthen these pillars, rather than to push market opening further.

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