

LECTURE: THE FUTURE OF GLOBALISATION

Dani Rodrik:

There are different types of globalisation, relating to the degree of integration but also the set of rules underpinning it. The world has seen three main periods of globalisation:

- Gold Standard - based on classical economics: global markets were possible because regulation was minimal, sought to address clear market failures (property rights, contract enforcement, etc.).
- Bretton Woods period, which we will consider as continuing into the 1980s, followed deepening democratic accountability resulting in a more social-democratic view of regulation, that pursued social objectives (labour protection, redistribution). Very successful in raising incomes and trade.
- Hyper-globalisation in the 1990s and 2000s, a return to de-regulation and less constrained economic integration.

Global markets require global rules, easier from a classical economics perspective. Democratic accountability nationally means the involvement of many stakeholders; regulatory diversity between countries is inevitable. Global markets and democratic accountability (with diversity in country preferences) are incompatible unless we transcend the nation state (leading to global democratic accountability). Therein lies the Rodrik trilema. As long as the nation state prevails, there is a trade-off between democratic accountability at home and global economic integration.

That said, similar countries or neighbours are best placed for economic integration as they can complement it with social and political integration. EU problem: large imbalance between economic and political integration.

Practical manifestations of the trilema: social dumping (trade), tax competition (investment), financial crises, migration/ labour flows (regulatory arbitrage, welfare states) among others. Populist backlash to globalisation is evident, and stems from a preference for national sovereignty and democratic accountability (not global markets).

Globalisation requires domestic economic management: thinner but more sustainable globalisation based on sound principles in the spirit of BW. Includes giving countries greater policy space to reconstitute social contracts (green and good jobs economy) with a domestic policy agenda (eg. carbon border tax). Technology requires a new set of rules. Hyper globalisation placed constraints (often cognitive and uncodified) placing the domestic economy at the service of global markets. Examples: Reagan (ideologically pro-trade) responded to the Japanese import threat of the 1980s with VER, in the 2000s (Chinese import threat) this was no longer acceptable.

China is the main issue going forward, as the most extreme example of the unfeasibility of a model of deep integration, we cannot presume China will change and comply. Decoupling isn't feasible. Desirable: West accepts that China will maintain its own model, EU and US remain free to maintain their standards and all can reap most gains from trade. Undesirable: mindless Trump decoupling attempts or a return to hyperglobalisation. China is interested in the global economic order (unlike USSR), peaceful coexistence at the economic dimension will be the big challenge.

André Sapir:

There is clearly a need for a new social contract at the domestic level, without which globalisation is not politically feasible. Solution at the global level: extend global rules (eg. on taxation, to prevent arbitrage). However, there are few examples of how the current (and 1990s) global order explicitly (eg. WTO rules) limited countries' policy space. For example, on climate policy, border carbon

adjustment is amply debated in the EU and there is no WTO constraint. Domestic politics are often the problem. Global rules, like the WTO, are there to protect weaker countries.

WTO must be changed to engineer behavioural change in china, but not regime change as it has been shown to be unfeasible. Given as China is the largest exporter in the world, without changing the rules to accommodate them we will destroy system altogether. However, Bretton Woods involved only the West and its offshoots (hyperglobalisation was more encompassing). Can we have a system where both China and the US are within? Peaceful coexistence will certainly be a major topic looking forward, it will require a reconciliation of political and economic interests.

Marta Domínguez-Jiménez