

## Opt in? Opt out? Steer a middle course? What to do next about globalization?

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In his book *The Globalization Paradox* Dani Rodrik (2011) suggests that countries should have the right to opt out of globalization. (1)

What a nice, relaxing idea! Imagine the peace of mind we could have in a world free of the constant ups and downs in international financial markets, and free of the incessantly rolling waves of internationally traded goods and services.

But, what could be Rodrik's motivation for proposing such an escape from globalization?

### **Emerging multi-polarity: Are the conventional major powers running for cover?**

According to Rodrik, globalization has gone too far. It has turned, as he says, into hyper-globalization, undermining nations' capacity to defend their policy priorities, norms and standards. Even economists like Paul Krugman, so goes Rodrik's argument, are now recognizing that American jobs are under threat from foreign competition in the monetary field, finance and trade (see p. 274). Moreover, lax product standards and weak social rights in nations from where "we" (whoever "we" may be) import goods and services are undermining our environment, health, and working conditions. In Rodrik's view, there "is little to gain from more free trade" (p. 253). Future trade negotiations should, therefore, be about "policy space rather than market access"; and in order to (re-)create policy space "countries should be able to opt out of WTO agreements, when WTO rules threaten national labor or environmental standards" (ibid.). Much the same should apply in respect to international finance agreements that a country might perceive as not subservient to its domestic policy choices. As Rodrik puts it, the paradox of globalization is that less globalization is better globalization.

In the case of trade, for example, Rodrik envisions that countries would submit their opt-out request to a special WTO panel that would seek to verify that the opt-out decision indeed emerged from a democratic process. If satisfied with the available evidence, the panel would allow the country to exercise its opt-out right. Authoritarian regimes would "be subject to additional substantive requirements" and need to demonstrate that the requested opt-out "would effectively achieve a specified public purpose" (p. 257).

Judging from the frequent use of "we" in the book and the emphasis on democracies, one cannot escape the impression that Rodrik thinks primarily of the US and other western-industrial countries when he considers escape from globalization. But then, wasn't it "us", or at least some of us in the western-industrial world, who pushed hyper-globalization? Just remember the Reagan and Thatcher years; or the structural stabilization and adjustment programs supported by the Bretton Woods institutions! Remember also the opposition these initiatives encountered! "We" were democracies then, highly divided countries politically, with some of us pro hyper-globalization and others very much against it. Being a democracy evidently doesn't turn countries into politically homogenous or wise communities. Some political fashions are better or worse than others. Also they, often, change quickly. So, if we had had an opt-out WTO or IMF/World Bank panel during the Reagan/Thatcher era, would it have decided for or against "our" pro neo-liberalism stance then? Would "we" have opted out for four or five years only to return, under the subsequent governments, to the free trade or financial liberalization regimes?

Rodrik's proposal for a retreat from globalization sounds like – and stands a high risk of turning into or being misused for – Northern protectionism. Ignoring the fact that it could barely be made operational, western-industrial countries might use his argument to re-erect trade barriers and capital controls, justifying such actions with quibbles about other nations' norms and standards or political conditions.

Yet, the deeper reason seems to be that despite all the pains “our” hyper-globalization inflicted on developing countries, development has happened, and new economic and political powers have emerged –and continue to emerge—as competitors of western-industrial countries in terms of rule-setting and winning the market competition. This seems to scare the conventional major powers and make them seek an opt-out option.

Certainly, lead-tainted toys – an example that Rodrik mentions as threatening “our” wellbeing – are undesirable. But what about “our” toxic financial products? The safety of the nuclear plants that “we” operate and export? The environmental disasters and the social harm (e.g. due to relocation of local communities) caused by “our” companies working to extract oil, gas, and other natural resources? Should “we” not volunteer, first and foremost, to strengthen “our” regulatory frameworks so that disasters like the 2008 world financial crisis or those in Fukushima and the Gulf of Mexico won’t re-occur? And why would one assume that, if international negotiations were open, transparent and fair, other nations would not agree to improved standards?

In fact, what Rodrik appears to have in mind is not a full opt-out from globalization but a selective one – especially one that suits a country like the US and its national interests. This is especially evident from his discussion on international migration which actually suggests an opt-in: “We” could support a greater openness of the labor market in order to allow guest workers in to the tune of three percent of the national workforce, for a limited time (say, six months). And as current debates on this topic in western-industrial countries already indicate, “we” would ask “you” to give us “your best” in areas where “we” are lacking requisite talent.

### **Fuller opting-in: The better alternative in enlightened self-interest**

Rodrik is, however, right in the basic point that underpins his discussion: economic openness and international cooperation, as well as competition, should make sense and contribute to enhanced local and national wellbeing. Today they often don’t, especially not for developing nations.

Therefore, sulking and stepping out of the international economic cooperation “sandbox” isn’t the right policy path to take, in particular not for the conventional policy-setters. Globalization presents risks as well as opportunities. The real challenge is to seek ways to minimize the former and maximize the latter. This requires full international cooperation: cooperation on fostering market integration (a challenge on which we have advanced) and cooperation on creating a global market-embedding institutional framework (an endeavor that has, so far, progressed only hesitantly).

Thus, instead of stepping out of the multilateral trade regime because of lead-tainted toys, the richer countries could, for example, strengthen their foreign aid to assist developing countries in upgrading their product standards; or, where they see weaknesses in terms of human rights, they could help strengthen judicial systems. So, why to cut oneself off from the world economy? Would this really enhance “your” or our common well-being?

Yet, an improved institutional embedding of international markets would, primarily, require greater fairness in international decision-making – affording all parties an effective say in matters that concern them. It would call for voice reform at the international level.

The reason is that international negotiation venues are most appropriately characterized as political markets. State delegations appear there as quasi private actors, that is, representing national, and hence, particularistic, parochial interests. In order to reach agreement, “give-and-take”, bargaining and compromising has usually to happen in order to allow all to derive a clear net-benefit from international cooperation. What holds true for economic markets also holds for these political markets: Let demand and supply freely interact, avoid monopoly and oligopoly conditions (like a few major powers dictating the rules for all) as well as information asymmetries, and the likelihood of international negotiations leading to an efficient outcome will increase. In other words, provided all concerned have an effective voice, international negotiations can lead to efficient outcomes, that is, outcomes that all consider as fair and legitimate.

Most probably, fair outcomes would include rules that recognize the diversity of national contexts and stipulate common but differentiated responsibilities so as to grant countries adequate national policy space, fostering coherence and cooperation despite diversity.

However, note that in this case the safeguarding of requisite national policy space would result from a common, multilateral understanding – not, as Rodrik envisages it, from a unilateral choice to opt out when and where a nation might feel that an opt-out would best suit its particular interests.

So, why did Rodrik not suggest such a multilateral policy approach – a policy approach that seemed to be there in his earlier writings? It appears that in the interim he has lost confidence in the feasibility, and thus, desirability of much of international cooperation. As he argues, “global governance enthusiasts” (p. 260) ignore that democratic governance is “organized largely within nation states, and ... [that it is] likely to remain so for the immediate future” (p. 237). Well, if one abandons vision and ambition in this way, then, of course, only the currently do-able – however inefficient it may be – looks feasible.

So, having put on the blinders of “nothing can and will change”, Rodrik outlines his ideas about “sane globalization” (p.251). His recommendations are: 1) to establish, as mentioned, a WTO panel to decide on country requests for opt-out of the multilateral trade regime (pp. 252-259); and 2) to adopt “an international financial charter with limited aims, focused on encouraging transparency, promoting consultation and information among national regulators .... [leaving] responsibility for regulating leverage, setting capital standards, and supervising financial markets ...squarely at the national level” (p. 264). Importantly, “the rules would explicitly recognize governments’ right to limit cross-border financial transactions, insofar as the intent and effect are to prevent foreign competition from less strict jurisdictions from undermining domestic regulatory standards” (pp. 264-265). Put differently, sanity in Rodrik’s view demands as little cooperation as possible, granting countries the right even to opt out of this little cross-border cooperation, and, as he also suggests (see page 266), leaving it up to coalitions of like-minded to harmonize their norms and standards.

### **Conclusion: Stay away from unilateral opting-out**

Imagine the world would follow Rodrik’s advice! International lawyers would be the happiest persons on earth, because their business would boom. They could prepare and fight for the success of all kinds of opt-out requests that would then be considered at length by expert panels (selected by and composed of whom?), throwing international cooperation into limbo for years, if not decades. And by the financial decisions on a case would be taken, a change of government might well have occurred; and that government might already have placed a request for the cancellation of the earlier national opt-out request. In short, if you have not yet seen enough of messy multilateralism, then follow Rodrik’s advice.

Otherwise, just stay away from any such opt-out suggestions and choose to opt in more fully: to encourage the world to foster greater fairness in international decision-making so that outcome fairness may also improve and all state and nonstate actors clearly see that international cooperation pays – and that under conditions of openness the best route to meeting national interests is through international cooperation. Because, as studies have shown the gains from international cooperation can be quite significant so that even if some countries have to pay off others to join an agreement, they can still come out from this deal with a handsome net-benefit.

Yet, in order to achieve a better management of globalization, one thing would need to change for sure. The conventional major powers would have to recognize and accept that it was primarily “them” who promoted the hyper-globalization that Rodrik now criticizes. So, it is rather odd for “them” now to leave the “rest” with the mess they created and opt out. More appropriate would be for the conventional major powers to get used to the changing global realities, to no longer being the sole or main policy and rule setters; to accept that democratic expectations cannot be bottled up within nation states but that participatory and fair decision-making must now be extended to the international level; and that given the impact of their past policies on the world and their present financial resources as well as institutional and human capacities it would only be just, if they were to shoulder a major responsibility for creating the global normative framework that would add to global market efficiency as well as an enhanced provision of such global public goods as climate stability, communicable disease control, energy security, and global poverty reduction. All this requires an opting in; and it promises a better life for all. So why not opt in?

(1) All page numbers refer to Rodrik, Dani. 2011. *The Globalization Paradox; Democracy and the Future of the World Economy*. New York: W.W. Norton.