

Centre for Culture, Media and Governance

The Big Issues Tradition and Rigidity the Braudelian Turn

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« What Comes Around Goes Around » :
The Demise of the Long Forgotten ITO and
The Governance Decline of the WTO
Parallels, Divergences and Scenarios

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Paradox and Certainty

- Fernand Braudel (1980) put his finger on the conditions for radical and incremental change: when society's institutions are trapped by both 'traditionalism and rigidity,' they cannot respond to the new political and structural realities taking place in the world today. From a Braudelian perspective, a severe structural crisis creates room for new practices and norms
- The information age continues to surprise, disappoint and challenge our ways of theoretically mapping and tracking its diverse social impacts.

Trade Governance an Idea Whose Time is Now

Idea universe is brimming with new ideas with the global financial crisis and the neoliberal moral legalists of the Washington Consensus victory has imploded and the Doha Round abandoned.

For development and trade governance, getting the institutions right v. getting the price right thin v thick globalization

What is new and different?

Politization of Ag and Generic drugs they are game changers and no longer the preserve of the technicos – the trade negotiators and politicians

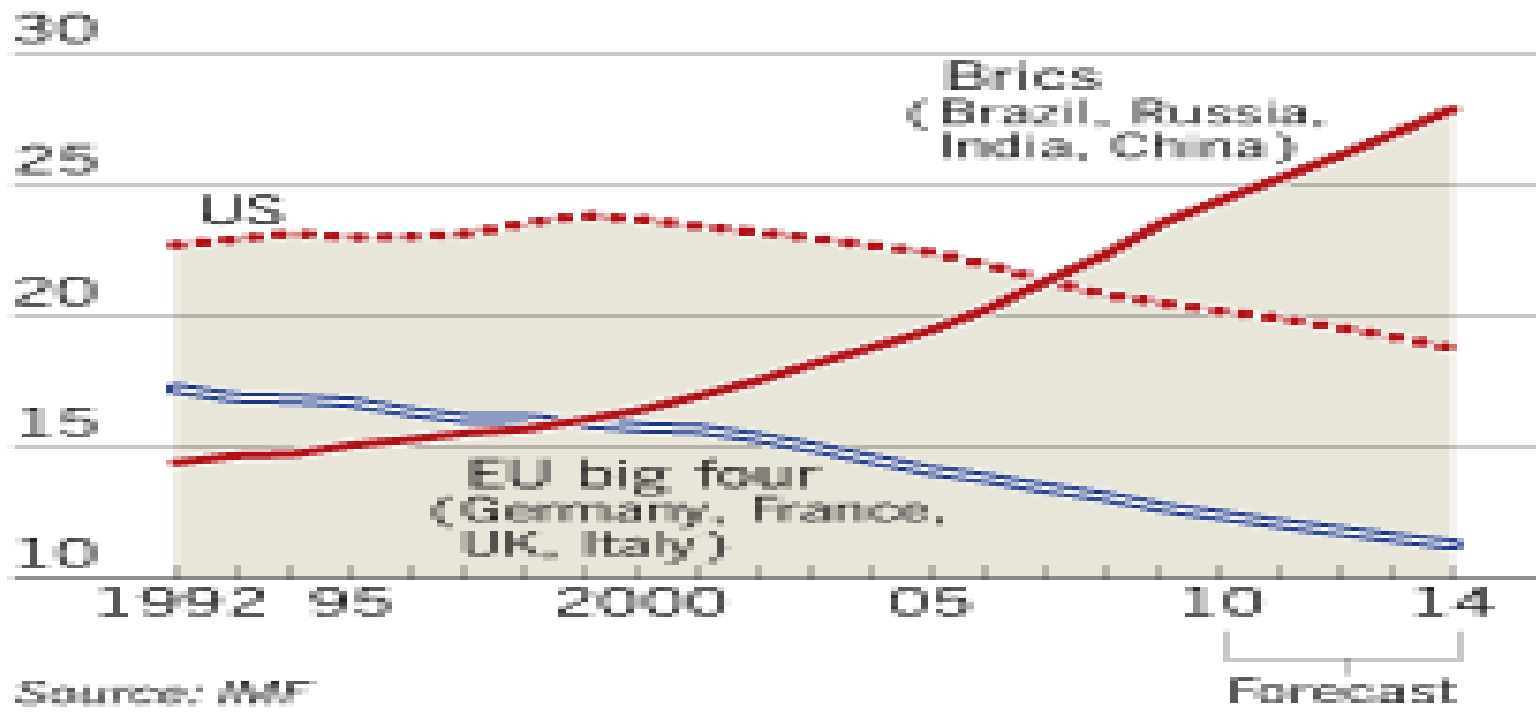
China, India and Brazil have a veto over the negs and this has created a high degree of uncertainty and paralysis – the once mighty Triad has lost control over the Doha Round texts.

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The Rise of the Rest A Bigger Structural Change

The Brics' rising share

Share of global GDP at purchasing power parity (%)

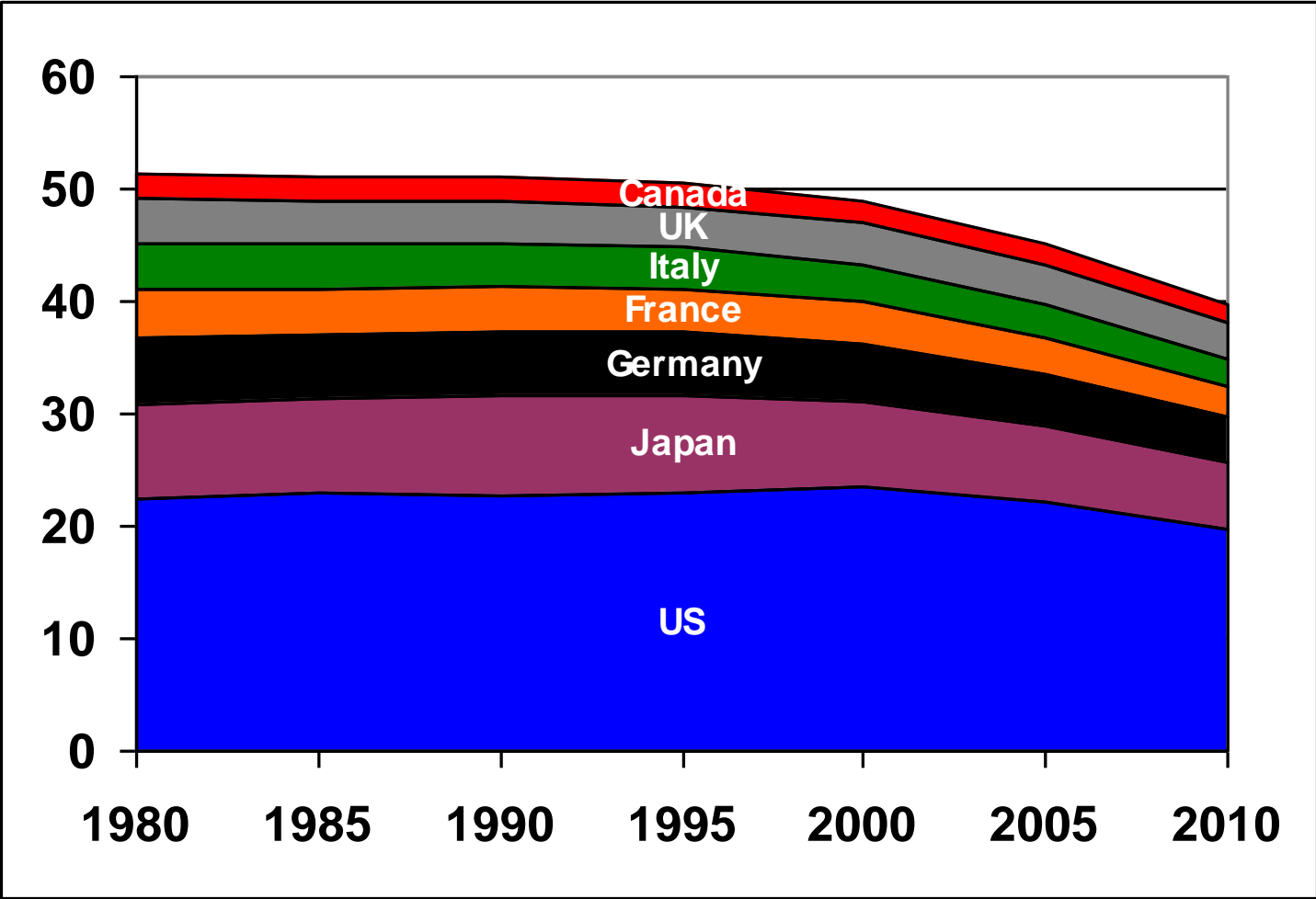


Sins of Omission and Inaction -- No 1 Killer Structural Imbalances

1. Insiderism and the Divide and Rule Decision-making Blair House Accord
2. Annexation of Domestic Policy Space Invasive and Long Reach Behind Borders
3. Sunny Optimism About Welfare Gains from Broadening and Binding Access. Increasingly uncoupled from the empirics of free trade and benefits
4. Hard v Soft Law –only clarify and no capacity to interpret the disciplines. Parsing of meaning rather than tackling complex problem solving.

GDP Shares of the G7 1980-2010

& of World Total at PPP

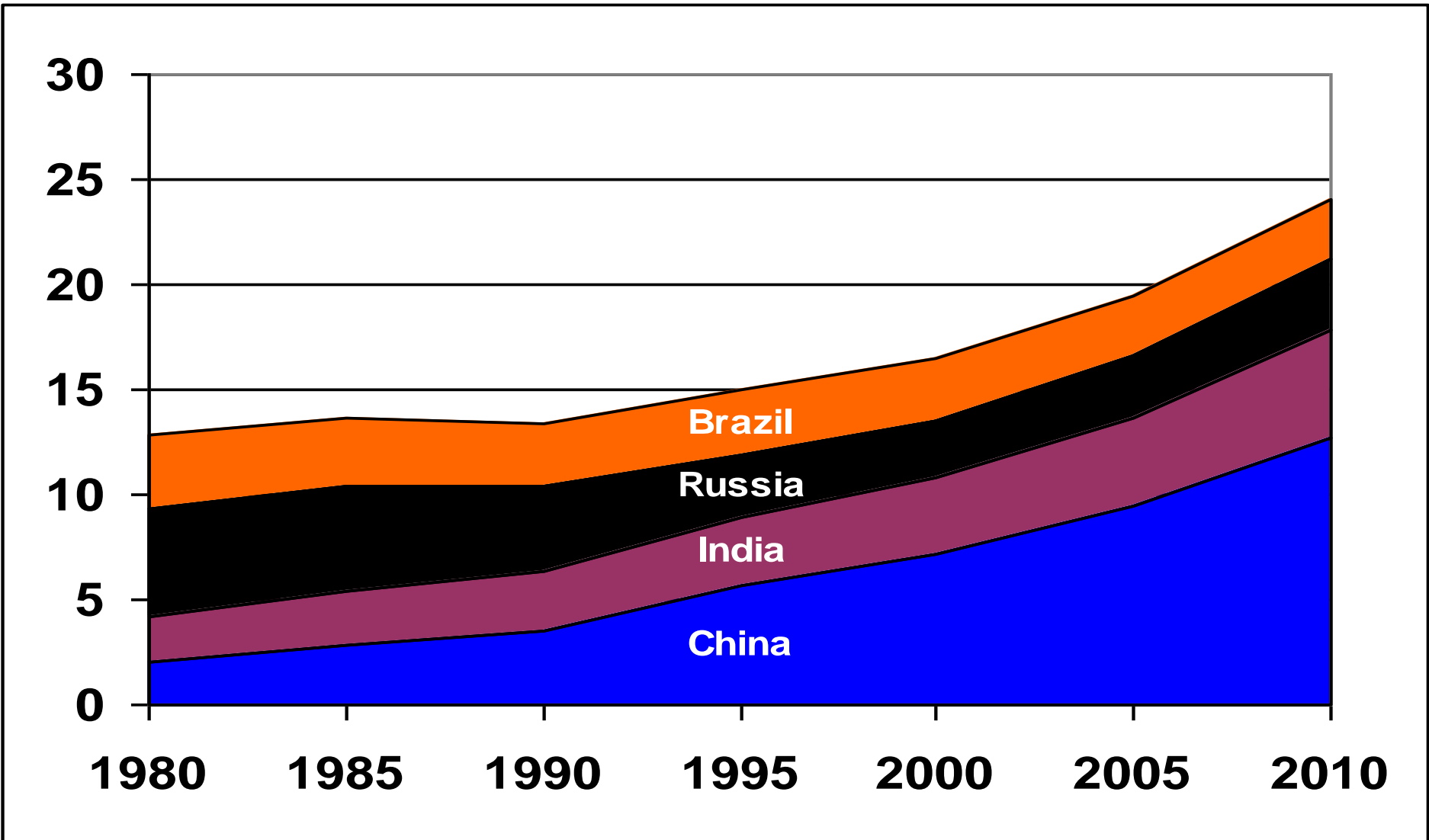


The Name of the Game

New Rules and Long Term
Structural Change – Read my
Lips It's the Interdependent Global
Economy Stupid!!

GDP Shares of the Brics 1980-2010

% of World Total at PPP



Developing Asian Economies

Continue to outpace the rest

US 2.2% growth in 2012

Eurozone 0.3%

ASIA excluding Japan 6.7%

But Asian growth still depends on the western consumer

China 3.2% US 16.3%

**BUT ASIA REMAINS VERY POOR SO TRADE
REMAINS A KEY FACTOR IN DEVELOPMENT**

No consensus on who is to blame

- The perennial q's:
- Is WTO too big or too small?
- Is it too weak for development ends and needs?
- Does the WTO have the right ideas about institution building?
- How much linkage is needed between trade and non-trade issues?

ITO, GATT, WTO Three Models of Trade Governance

- Since the great crash of '29 the world economy has been searching for the right rules to organize the world's trading system and institutionalize the processes needed for an effective model of trade governance. At its best the multilateral trading system supported capacity building, a balanced trading order and one that would facilitate participation and an open system of decision-making. At its ideological most driven it would suffer from the sins of omission, optimism and inaction. When it did interests, agents, ideas and ideology converge to sharpen the structural imbalances between the state and global markets.
- The trade centric system faces unprecedented challenges from the multilateral trading order. As the world emerges from the current crisis multilateral institutions have to change and adapt. The meta question is what will the multilateral trading system look like? A highly sophisticated new multilateralism? Or a pale shadow of its former self?

A Short History Lesson

- We know trade governance has always evolved by fits and starts driven by self-interest and some form of free trade. Sometimes trade liberalization has been modest and limited in its impact on domestic economies. In other times it has reached behind the border and annexed the policy space of government. It has relied on **safeguards** to protect emerging economies from global competitive pressures, to ensure that the benefits from market access are shared and to shield the most vulnerable from the asymmetry of adjustment when countries open their markets in spite of the human costs. As a generalization this much can be said with certainty.

Discretionary Safeguards, regulatory flexibility and trade pluralism convinced states after the beggar-thy-neighbour mile high tariff walls of the 30s to set aside their mercantilist fears and protectionist instincts to look positively at the need for a rules-based system and multilateral co-operation. We are back to ground zero.

Trade Governance An Exercise in Decoding the Image in the Rear Mirror

- Since the great crash of '29 the world economy has been searching for the right rules to organize the world's trading system and institutionalize them. At each fork in the road a different design and rules based system was adopted. The short-lived ITO 1947-48 was the high standard with a comprehensive plan to balance the need for a rapidly growth of exports with maximum development for both the advanced economies and the newly decolonized southern countries.

GATT Smart, Flexible and Rule of Diplomats rather than Rule of Lawyers

- In the aftermath of the collapse of the ITO the GATT replaced it was the 'great compromise' in rules and processes between the idealists who saw as part of a larger development governance agenda and the realists who saw trade as a zero sum game dismantling tariffs, resolving disputes with a highly flexible set of rules. This system logic of a rules based but highly flexible trade order of interstate relations made it the ideal counterpart to the Keynesian-Kaldor welfare state.

Embedded Liberalism The Global North's Ideal

- The big picture innovative idea of the time was that an export-led regime had to serve the full employment needs of the newly minted Keynesian welfare state, the transformative moment of post war capitalism which Ruggie famously captured in the term 'embedded liberalism'.
- Capitalism had to strike a balance between Pareto efficiency and social justice goals in a postwar world. There could be no return to a system of laissez-faire free trade. For three decades social democratic order produced an era of unparalleled prosperity. Historians call it the golden age of capitalism but growth centered Keynesian collapsed as a governance model by the beginning of the 80s
- For the Global South it reinforced the unequal relations of the Triad and a developmental failure

What Went Wrong?

- ITO the 'grand bargain' was too much for the US and EU – prime sponsors and in the euphoria of the post war world they gave away too much. They made too many institutional concessions on agriculture, investment, labour standards and corporate oversight
- GATT's weak point was that it was too flexible in legal culture, too successful at dismantling tariffs and lacked bazooka legal power for the Washington Consensus era
- WTO's poisoned chalice is that its legal culture and negotiations template and the single undertaking was narrow, impractical and rigid. The Doha Round imploded when the dynamics of power moved from the 'club' to the 'coalition' bargaining of the emerging market economies.

Restructuration and Structural Coherence

- **WTO**

- Single best practice
- Strict rule interpretation
- Smaller role for the state
- Broadening market access
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- Legal monitoring and enforcement
hoc response to the crisis
- Source: Drache 2010

- **ITO**

- New role for the state
- Policy experimentation
e.g. capital controls
- Rebalancing
social agenda and markets
- Problem solving, risk
assessment,
institution-building
- Incremental adaptation and ad

The Much Anticipated Return of the State

The Policy Importance of Rule-Bending Rescue Measures			
	Trade Leverage	Multiplier effect	Bad effects
Stimulus package	High	Very High	Debt Overhang
Wage subsidy	Moderate to High	High	Smallish Difficult to Phase Out
Industrial subsidy	High	Strong	Unclear and Difficult to End
Innovation	Low Weight	Unclear	Low for the Moment
Capital controls	Effective for Brazil	Across The Financial Industry	Negligible
Quotas/ antidumping	Small and Merit Tracking	Neutral	One offs Subject To National Interest and WTO discipline
Credit Expansionary Policies	Strategic and Very Focused For Both Private And State Enterprises	Large and Continuous For Corporations and For Offsetting GDP Contraction	Loans and Bailouts Leave A Decade of Legacy Costs

New Rules for Trade Governance – Game Changers

- Jobs and Trade are not reinforcing. In many countries trade is job destructive. Free trade model needs fixing and new footings
- The WTO Consensus Model is Broken and Cannot be Fixed. Coalition negotiations are complex and common ground close to an impossibility
- Great Unknown What does the Global South want trade governance to become? An 'Everything WTO' less intrusive on many issues but more active and development focused. Make Any Sense?
- The Developmental State is Back and Markets in a neoliberal conception are on the back burner for the moment. India government programs subsidies for energy, cancellation of farmer debts, and rural employment guarantees provide non-farming jobs. Rural Spending on consumer durables has doubled between 2005 and 2010 from 2.6% to 4.8%
- Global Markets Need to be Embedded in Resilient Institutions so to Maximize the Welfare for National Societies
- Minilateralism, RTAs and Plurilaterals are the future
- So the options: # 1 Sink it, # 2 Shrink it or # 3 Rethink It. We are somewhere between two and three. Good luck and the world will need all the help it can get.