



THE BROOKINGS INSTITUTION

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SMOOTHING THE ROUGH EDGES OF GLOBALIZATION

THE 2002 CENTER FOR INTERNATIONAL AND COMPARATIVE LAW LECTURE

UNIVERSITY OF BALTIMORE SCHOOL OF LAW

MONDAY, NOVEMBER 18, 2002

5:00 PM

Introduction

I want to thank Professor Sellers for the kind introduction. It is a pleasure to be here at the University of Baltimore Center for International and Comparative Law. I want to express particular appreciation to Professor Hal Shapiro who contributed immeasurably to trade policy at the White House.

Getting Globalization Right Matters More than Ever

In the 1967 movie, *The Graduate*, a suburban businessman summed up the future in a single word: "Plastics." If you had to sum up the future today, what would your one word be? My one word would be globalization.

What is globalization? For anyone in Latin America or Asia or the Middle East, *Globalization R Us*. Most believe that globalization is a grand American conspiracy -- a relentless quest to subordinate the planet to Mickey Mouse, Madonna and McDonalds.

But that is just part of the truth. In fact, globalization is simply the logic of the market playing out. And the market takes on a life of its own, beyond the control of any single nation.

September 11 was a defining event for America's posture in the globalization debate no less than for America's strategic posture. Too many in foreign lands displayed a disturbing readiness to interpret the attacks as a comeuppance for an arrogant superpower pushing its own brand of globalization on an increasingly resentful world.

September 11 brought into sharp focus the realization that in this global age America's well-being depends far less on geographical isolation than on the ability to shape the international system. Getting globalization right is one of the most pressing policy priorities facing America as a nation. But also one of the toughest.

Today I want to touch on 6 dimensions of that challenge:

The Globalization Inequality Debate: Would the Answer Change Policy?

First, the heated debate on whether globalization raises inequality is interesting, but it is not clear what the policy implications are if any.

There is intense debate over whether world inequality has gone up or down. Any way you measure it, it seems clear that that inequality between countries has gone up. But for the world as a whole – that is, ignoring countries and focusing on individuals -- there is strong evidence

that incomes have grown more equal over time, not less, due largely to rapid growth in India and especially China, which account for 40 percent of the planet's population.

Whether globalization has caused greater inequality is a separate question on which even less is known. Within the US, trade has contributed to the wage gap but technological change and the decline of unions have contributed even more.

Of course, inequality matters, but poverty and living standards should matter more. And everything depends on how you measure poverty. Some claim there are more people living in absolute poverty today than in earlier decades, measured by income. But evidence on life spans, on child survival, on nutrition, and on education point in the direction of important improvements in the poorest nations, both absolutely and relative to the rich nations. For instance, the poorest countries accounting for one fifth of world population have seen life expectancy rise from 37 to 66 in just 3 decades.

At the end of the day, the imperative for policy is the same. No one is advocating a return to protectionism. The world has tried that before in the 1920s and the outcome was not very pretty. It is interesting that the transnational protest movement has evolved from simplistic anti globalization to a growing emphasis on making globalization a better deal for the poor

That strikes me as the right debate. How can we – the country most associated with globalization in the world's eyes – smooth the rough edges. The bottom line is we have a vital national interest in promoting broadly shared growth and combating poverty.

Back to Basics on Trade

That brings me to the second point. America should pursue a narrow “back-to-basics” agenda for global talks: genuine market access in sectors that historically have been shielded by special treatment. In this, there is a remarkable coincidence of interest between a “development” agenda and US national interests.

Trade is the number one tool in our development arsenal. The gains from a "modest" market access round alone are quite impressive. The World Bank puts the value at \$350 billion annually overall, with half accruing to developing nations. I cannot think of any other single policy instrument that can deliver a permanent boost to world income by over 1.1 percent and to developing nations by 5 percent. The gain to developing countries amounts to over 25 times the value of current foreign direct investment inflows and nearly 4 times global aid flows.

Agricultural liberalization promises a particularly high payoff, although the political obstacles are daunting. Total agricultural support in rich countries is over \$300 billion a year -- more than the entire income of sub Saharan Africa. Reform could materially affect the livelihoods of three-quarters of the world's poor who live in rural areas.

Critics of agricultural subsidies have pointed out that the average EU cow receives more government support at \$2.20 each day than half of the world's population, or three billion people, subsist on.

The World Bank estimates that EU sugar subsidies have grown so large, they depress world prices by 17 percent. These subsidies have enabled EU exporters in Algeria and Nigeria to displace lower cost Mozambique, where sugar is the top employer.

And trade access matters. In 2000, Congress signed into law the Africa Growth and Opportunity Act –In the first year alone, the impoverished island nation of Madagascar doubled its clothing exports to the US. Tiny Lesotho has doubled its manufacturing employment on the strength of improved US trade access.

Dangers of Trade Overreach

But the flipside is we must avoid overreach on trade. We could spend an entire hour talking about the WTO dispute settlement. Don't worry, I won't.

I remember one meeting between the leadership of the EU and President Clinton. I expected a lofty discussion on world issues. Instead, President Clinton was treated to an 25 minute lecture by the EU trade minister on the minutiae of the latest trade dispute. No one knew how the President would respond. We held our breath as he cleared his throat, and said in a grave voice, "I always look forward to these sessions just so I can hear the Minister's pronunciation of the word *Baa-naa-naa*."

Who would have thought that the WTO dispute settlement system – which the US actively sought to strengthen for trade disputes – would require fundamental changes to our corporate tax system with the threat of \$4 billion in sanctions backing it up?

For some the WTO is too strong, for other too weak. Environmental groups are working to establish “deference” of WTO disciplines to multilateral environmental agreements in order to deprive the WTO of jurisdiction over domestic environmental regulations. Ironically, labor advocates advocate the opposite: that the dispute settlement system take on broader reach into the areas of labor standards because the WTO has “teeth” or concrete sanctions, while the ILO does not.

And nobody could have foreseen how the WTO intellectual property agreement could become a matter of life and death in poor nations. But this experience should make us a little more humble as we move forward on reconciling deep differences in domestic regulation for purposes of trade.

Campaign against Terrorism Demands More not Less Integration

Fourth, the campaign against terrorism puts a greater premium on giving the poor and disenfranchised around the world a stake in the international system.

What we need urgently and don't yet have is a concerted strategy to address the complicated issues of lagging economic reform and shallow international integration that hamper economic and political modernization in the Middle East. Last year, the US bought four times more from

the Dominican Republic than from Egypt, a country seven times bigger. In 2000, Chile attracted more direct investment than the entire Middle East North African region -- whose population is twenty times larger. A serious strategy should address the reasons that key players in the region, such as Saudi Arabia, remain outside of the WTO and deny access into America's highly prized market to encourage integration among the region's underdeveloped economies, which is staggeringly low.

Second, there is a risk that new security measures may inadvertently make the trading system even more of a members club for richer countries by raising entry barriers still further. In securing our homeland, nowhere is our vulnerability greater than on seaports and containerized shipping. But as we focus our efforts on the world's largest ports, there are growing concerns that goods from poor nations and small businesses will end up in the slow lane, while goods from richer nations zip by in the EZ lane. And in today's economy, time is money. Rough estimates suggest that doubling freight costs could reduce imports from Pakistan and Indonesia by 8 percent.

September 11 served as a wake-up call for trade supporters. But the question remains: can we pursue a trade agenda that is good for us economically, beneficial for developing nations, and yet strikes the right political balance at home?

The evidence is decidedly mixed. In the last year, with the strategic rationale for trade as a post Cold War high, trade has taken two important steps forward but several more backwards. The launch of global trade talks at Doha a year ago and the more recent passage of trade promotion

authority by Congress were important, but both were procedural accomplishments. Whenever it has come to concrete tradeoffs – on steel safeguards, on agriculture subsidies, on textiles market access – the current Administration has opted in favor of domestic interests.

A Critical Part of Trade Policy is Domestic

Which brings me to the fifth point: trade is so tough because it is redistributive. That is why domestic policy must be a central part of the mix.

Economics tells us that trade is beneficial on aggregate but also that trade creates winners and losers. When plants shut down and jobs are eliminated, the losses are much more painful than the benefits to consumers and exporters. In principle, the winners could compensate the losers, but in the real world of US policy, trade losses are compensated only in small part.

It is no coincidence that labor is much more mobilized on trade in the US than in Europe. When American workers lose manufacturing jobs, they can lose everything: pensions, health care and lifetime earnings. In Europe, government cushions the impact.

That is why in the US Trade Adjustment Assistance has for decades been considered a central part of the trade bargain in the US, and why the extensions passed into law by Congress this year were so vital.

And that is the reason members of Congress are so protective of the US trade remedy statutes. Trade remedies are the only line of defense when jobs and companies in their districts are threatened by trade. While the Administration's recent steel safeguards commanded overwhelming bipartisan support in Congress, the debate over the government's role in addressing legacy costs divided along sharply partisan lines – even though this is the direction that has been pursued successfully in both Europe and Japan.

Aid is Back in Play

Finally, trade cannot and should not be all of the answer.

The end of the Cold War, disillusionment with aid failures, and US budget politics produced a slash-and-burn approach to US development aid during the 1990s.

Now Bono and Paul's excellent adventure suggests a shift in the politics of aid for two reasons:

First, aid activists have developed a powerful recipe for commanding support. The partnership of Bono and the Pope – of popular culture and religion -- has helped rivet attention on the plight of the world's poorest and mobilizes billions for debt forgiveness and HIV/AIDs.

Second, the campaign against terrorism has provided a powerful political rationale for foreign assistance missing since the end of the Cold War.

Indeed, it is more than coincidence that several months after 9/11 President Bush proposed that the United States increase its development aid spending by \$5 billion by 2006. Leading Democrats have sounded a similar call.

It is critical that we use increased funding to effect a transformation in US development policy or risk another backlash.

While compelling, the new security rationale for development aid – as part of the fight against terrorism – also is far from airtight. The links between poverty and terrorism are weak and indirect. During the Cold War, the logic of using aid to reward foreign leaders who were “with us” led to the many horror stories of corrupt leaders using aid to line their own pockets or fund pet projects.

No doubt, you have heard the one about the country that diverted millions in aid to Swiss bank accounts or private jets. But have you heard the one about the nation that used the proceeds from debt relief to eliminate school fees – and saw primary school enrollment double as a result. True story. The country is Uganda.

Experience suggests aid has the best chance where national leaders take ownership of the reform strategy, they are held accountable, and macroeconomic policies are sound. Aid has the best track record in areas such as basic health, primary education, sanitation, and clean water.

Similarly, there is great potential value in subsidizing research tailored to the special challenges of poor nations. The Green Revolution – which gave a massive boost to agricultural productivity in India and China and banished the specter of famine --is one of the highest returning investments in development history. There is similar potential in the areas of tropical agriculture and diseases afflicting the poor. But here ironically we coming full circle to trade. The backlash against genetically modified foods that began as a trade dispute in Europe could threaten further research into agricultural productivity. Already, this backlash is having tragic consequences in some African nations, where leaders have turned away food assistance in the midst of deepening famine.

Conclusion

A colleague suggested I title my remarks “Globalization *need* not be boring. But it most often is.” Boring or not, it is an area that needs your energy and your training.

The complicated state of play in the globalization debate is likely to require international lawyers to wear many hats -- economist, negotiator, litigator, diplomat, and statesman .

Baltimore, with its success in clinical programs and ties to law centers all over the world has a special role to play in the globalization debate. I hope you will use your talents and your skills at least in some small part to make the trading system work for the poor around the world. Your knowledge and practical experience of the law could make a defining difference.

Thank you.