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## 5: On a People-Friendly Globalisation

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With the backers of the Trans-Pacific Partnership Agreement (TPPA) struggling to keep it alive, it is time to think about what a good alternative - and what people-friendly globalisation - would look like. This will require much more than simply taking the same model and adding on a few weak labour and environment chapters as the TPPA did. The whole framework needs to be changed.

The TPPA failed not just because Trump withdrew. There was a huge international movement against it. Per capita, few countries had stronger opposition than New Zealand with tens of thousands of people in public protests; a 2015 3 News poll showed 54 per cent of voters disagreeing with the TPPA. All credible candidates for the United States presidency opposed it. The European Union-US equivalent, the Trans-Atlantic Trade and Investment Partnership (TTIP), is in a similar state due to widespread popular opposition, particularly in Europe. These facts will not change even if some of the remaining 11 parties to the TPPA negotiations manage to resurrect it in some more limited form.

Clearly we have reached a watershed in the development of such agreements. Despite this, there are many governments still in denial. The New Zealand government as much as any has its head in the sand. The Minister of Trade is using the weakest of political excuses: that the New Zealand public just didn't understand. All that was needed was more pro-TPPA roadshows and more business support. It is in various stages of negotiation for a raft of new agreements in the same model: the Trade in Services Agreement (TiSA), Regional Closer Economic Partnership (RCEP), India, PACER Plus, the European Union, and Sri Lanka (the latest suggestion). It has asked to join the Pacific Alliance, an agreement between Mexico, Colombia, Peru and Chile. There are likely to be proposals for bilateral agreements with the United States and Mexico.

Wouldn't it be more sensible to press the pause button and ask why there is growing opposition internationally, and how the nature of these agreements should be changed to address these concerns? Here, I offer some ideas as to what a more progressive path would look like.

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### *What is the problem?*

At the heart of public concerns – whether it is about the impact of these agreements on medicine prices, public health, labour rights, the environment, privacy, the power of overseas investors, migration (less so in New Zealand), food standards, or inequality – is the same debate we constantly have at a national level over the tensions between different objectives and priorities.

We want more and better jobs and incomes – but that can conflict with environmental protection and the limits to resources. Capitalism can help by being dynamic and (sometimes) innovative – but it can also suppress people’s needs such as their rights at work, good jobs and a healthy and safe environment. Rapid growth in firms may be easier in the short run when they don’t have to take account of the impacts of their decisions – whether internally such as the fair treatment and safety of their employees, or externally such as the impact of their activities on people’s health and the resources they consume – but we value those outcomes just as we value the goods and services produced by firms. The rules made to ensure good outcomes in the face of these conflicts frequently come up against the economic interests of those who think they can make more money with fewer rules, which leads to conflicts between democratic rights and commercial power. We have institutions that are set up to debate and decide (not always effectively) among these conflicting priorities: elections, parliament, local government, government agencies, the court system, media, unions.

There are very different frameworks for weighing these conflicts and tensions. To oversimplify two of them: neoliberalism is the idea that, left to itself with just enough intervention to make sure it works efficiently, the ‘market’ will resolve such conflicts in everyone’s best interests as long as government keeps out of the way. It has little way to handle matters such as fairness, income inequality or ‘immeasurables’ such as a pleasant environment to live in. Social democracy accepts capitalism as the basis for the economy but sees a strong role for government as necessary to ensure fair and sustainable economic, social and environmental outcomes.

It is now widely accepted that neoliberalism, which became the dominant framework in New Zealand with the 1984 Labour Government, has failed economically, socially and environmentally. The Global Financial Crisis (GFC) starting in 2008 was a body blow to many of its assumptions, and politically the huge growth in inequality internationally, particularly in the United States, has highlighted its social failings. It is unable to provide a solution to global threats such as climate change. It is not clear what will replace it as the dominant ideology or framework.

Yet the international agreements are products of the neoliberal framework. Early agreements such as the General Agreement on Tariffs and Trade (GATT) dealt only with international goods trade and were much more limited in their impact on domestic laws and regulations. While imperfect, they accepted a compromise between freeing up international commerce and protecting the interests of individual nations. However, with its expansion in 1995 into the World Trade Organisation and its raft of new treaties, trade agreements became increasingly intrusive, dealing with services, 'technical' food and safety standards, qualifications, foreign investment, movement of people for work, intellectual property, and expanding into regulatory standards and state-owned enterprises. These agreements developed new judicial systems with their own tribunals to decide disputes, outside the jurisdiction of individual nations.

Initially there was a rational economic basis for these agreements. Increased trade is in general a good thing. It allows countries to expand in the areas in which they are most efficient (comparative advantage) and, for small countries like New Zealand, allows firms to grow far beyond what the domestic market would allow and obtain efficiencies of scale. There needs to be provisions for growing new industries outside the heat of international competition, and protection from the introduction of pests and diseases – but in general the argument for international trade is sound.

A similar rationale is used for 'trade' in services – but given they include essentials like health and education on which societies base their long-term economic, social and cultural development, and sensitive cultural areas like the arts, videos, music, news media and broadcasting, and that much of this 'trade' is really investment or movement of people across borders, it is a gross oversimplification. Services also include finance whose deregulation creates enormous risks, which played out in the Global Financial Crisis. It gets even more difficult when investment and movement of people are concerned. Huge issues of power, social sensitivities, and selection of investment and migrants come into play.

Both services and specific investment provisions limit countries' abilities to regulate incoming investment and bring further demands. The private international tribunals being set up to protect investors' interests against national governments (Investor-State Dispute Settlement or ISDS) privilege investors with little evidence of public benefit and grave risks to the public interest.

Even some neoliberals would agree that an economic argument for extending intellectual property rights in the way that the TPPA proposed does not exist. The 'rationale' is win-lose: the big media and pharmaceutical companies of the United States want commercial advantage at the expense of the rest.

The objectives of these agreements have changed from an arguable basis of maximising economic welfare to one of maximising the most powerful player's commercial advantage.

There are other problems. The central principles of these agreements seek to minimise regulation in favour of increased economic activity in the form of international trade and investment. This mistakes a means (economic activity) for wellbeing and better outcomes. Those outcomes are familiar in day to day political debate as described above: improving material living standards, better health, education, safety; a clean environment and conservation of scarce resources; respect for different cultures and strengthening of local culture and the arts; and fairness in how these outcomes are shared. In these agreements, rather than wellbeing being primary, aspects of wellbeing (and only some) are framed as 'exceptions' to the rules that aim to increase economic activity.

The normal political debate over priorities is turned on its head in a way that serves corporate interests rather than social, environmental and broader economic interests.

These upside-down priorities are aggravated by the authoritarian process of negotiation of the agreements. With few exceptions, draft texts of agreements are secret to all but negotiators and privileged corporate representatives until signed and too late to change. If domestic legislation was enacted like this there would be an outcry.

How has all this come about?

### **Globalisation**

Those who criticise these agreements are frequently labelled 'anti-globalisation'. In these days of Trump and Brexit, where people are turning against these trends, there is an attempt to tar all with the same far-right brush. Those with a 'liberal' outlook are said to favour 'globalisation'.

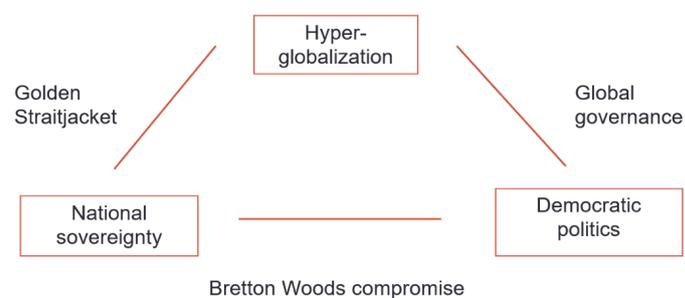
But there are many possible models of globalisation. Harvard University Professor of International Political Economy Dani Rodrik who has written extensively on these subjects describes the current model as 'hyperglobalisation' - globalisation taken to an extreme depth.<sup>46</sup> He has proposed what he calls 'the Political Trilemma of the World Economy': 'It says that democracy, national sovereignty and global economic integration are mutually incompatible: we can combine any two of the three, but never have all three simultaneously and in full.'<sup>47</sup> This is represented by Figure 2 below.<sup>48</sup>

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<sup>46</sup> Rodrik, D. (2011). *The globalization paradox: Democracy and the future of the world economy*. New York, NY: W.W. Norton & Co.

<sup>47</sup> Rodrik, D. (2007, June 27). *The inescapable trilemma of the world economy*. Retrieved October 23, 2014, from [http://rodrik.typepad.com/dani\\_rodriks\\_weblog/2007/06/the-inescapable.html](http://rodrik.typepad.com/dani_rodriks_weblog/2007/06/the-inescapable.html)

<sup>48</sup> Rodrik, D. (2016, June 13). *Brexit and the globalization trilemma*. Retrieved February 28, 2017, from <http://rodrik.typepad.com/.a/6a00d8341c891753ef01b8d1f6d855970c-pi>

**Figure 2: Brexit and the globalization trilemma**

### Pick two, any two

Why? We have seen that deep economic integration through the current type of agreements increasingly means weakening domestic laws and regulation. It greatly reduces the space available for the nation-state to regulate in its people's own interests. Rodrik says we have three choices:

1. *Weaken or dispense with the nation-state:* If we want to maintain the current model of globalisation and deepen it further through agreements like the TPPA, the nation-state must make its priority the enforcement of international integration. Meaningful democracy must therefore be at the global level. Given the difficulty that large federal states like the United States, let alone looser confederations like the European Union, have in conducting a working democracy, this is a dangerous pipe dream. Even little New Zealand often finds it difficult.
2. *Weaken or dispense with democracy:* If we want to maintain the nation-state with its power to regulate and also have hyperglobalisation, we must weaken or dispense with democracy because the state will frequently not have freedom to do what the electorate wants. It will tend towards authoritarian rule. As we see in recent developments, this tendency is the status quo.
3. *Weaken globalisation:* If we want to maintain the power of the nation state to regulate in the interests of its citizens and also have democratic politics, globalisation must be more limited. Rodrik gives as an example the Bretton Woods regime from the time of World War II to the early 1970s.

I unashamedly choose a working democracy. Because for most purposes a working democracy can only occur in a nation state, option 3 is the only acceptable choice. The point of this is certainly not to advocate for closing up the borders. That would be daft. The point is that the current intense model of globalisation - hyperglobalisation - must be reformed to make it friendly to democracy within nation-states.

### ***A framework for international agreements***

In this, I take a social democratic perspective. Those who take a neoliberal perspective have little problem with the current framework. I suggest that what we should seek as far as possible is consistency between our aims at home and our international aims. Why should international agreements be an exception to our aims for social justice and environmental sustainability? Yet hyperglobalisation makes it very difficult for social democracy to flourish.

Some impacts of globalisation are not due to international agreements; for example the falling costs of international transport and telecommunications make it harder for a nation-state to regulate its own territory. But that should not be exaggerated. Some of these results, such as tax dodging, can be addressed with international cooperation, which is increasingly occurring though too slowly.

A framework for international agreements that allows democracy to flourish and preserve sufficient room for governments to make meaningful decisions within the nation state could look like this:

- Recognise the right of each nation to legislate, regulate and administer in its citizens' interests in areas fundamental to their wellbeing including health, education, safety, environment, conservation, culture, human rights, labour rights, and any other actions considered necessary to address disadvantage among social groups, inequalities of income and wealth, and inequalities of outcomes. A foundation could be provided by the international treaties and conventions which set accepted standards in human rights, labour rights, conservation and the environment. .
- Recognise the right of each nation to regulate the movement of people and capital according to its own needs and to adjudicate disputes, as long as actions do not breach human rights.
- Recognise the right of each nation to determine which services should be provided as public services, by whom and under what conditions.

- Recognise that each nation has economic development needs. These may require time-limited exceptions to open borders in order to build industries that provide better jobs and address economic imbalances. The time required for developing countries will be considerably longer than for advanced economies, and the exceptions broader, but even advanced economies will need exceptions to restructure. Also recognise the need for protection from commercial, social and environmental dumping of goods and services below cost (including externalised costs).
- Recognise the need of each nation to take actions for economic, social and physical security, including the ability to take action to prevent financial and balance-of-payments crises, to address their effects if they occur, to maintain currency stability, and to conduct an effective monetary policy.
- Recognise the sovereignty of each nation in its taxation policies. Negotiate agreements committing to cooperation to prevent tax avoidance and to desist from competitive use of taxation to attract investment.
- Subject to these constraints, which are primary, negotiate progressive reductions in intentional barriers to trade.
- The process of developing agreements should be as similar as possible to developing domestic legislation with widespread consultation while changes can still be made and, whenever possible, publicly available draft texts. The latter could be addressed in a number of ways including making available drafts after they have been tabled in negotiations unless there is a specific justifiable reason for withholding them (as the European Ombudsman recommended), and having pauses in negotiations at regular intervals (such as annually) when the text to date is made available for public debate. Final decisions on ratification of agreements should be by Parliament after an independent evaluation of the economic, social and environment impact.

In fact at this stage of hyperglobalisation, the economic returns from trade and investment agreements are tiny and uncertain. Even the economic evaluation of the TPPA commissioned by the Ministry of Foreign Affairs and Trade (MFAT) found only a 0.9 per cent increase in GDP in 15 years' time, and all but 0.2 percentage points of that is a contentious estimate of the gains from deregulation of services.<sup>49</sup> This risks counting as gains the removal of some of the protections which we have for public purposes such as health, safety, financial stability, and service quality, on the basis that it creates more commercial opportunities. This type of economic evaluation uses modelling (a Dynamic Computable General Equilibrium or DCGE model)

<sup>49</sup> Strutt, A., Minor, P., & Rae, A. (2015). *A dynamic computable general equilibrium (CGE) analysis of the Trans-Pacific Partnership Agreement: Potential impacts on the New Zealand economy*. Wellington, New Zealand: Ministry of Foreign Affairs and Trade. Retrieved from <http://tpp.mfat.govt.nz/assets/docs/TPP%20-%20DCGE%20Analysis%20of%20Impact%20on%20New%20Zealand,%20report.pdf>

which assumes away some of the most important questions: it assumes no change in employment, no change in inequality, no change in the balance of trade, and no adjustment costs. An alternative model which does not make these assumptions finds increases in inequality and falling employment.<sup>50</sup> Important impacts are not included in these models including economic and social costs of higher-priced medicines, books and music due to more restrictive intellectual property rights; the higher risk of financial crises which could more than reverse any economic gains; the cost of corporations suing the government through ISDS - both legal costs and the impact on our future choices; the cost of remaining in a low value economy; and the increased difficulties in putting public health measures into place to combat excess alcohol use and obesity.<sup>51</sup>

There may therefore be substantially greater returns (some economic, some social or environmental) to change focus to negotiating international taxation agreements to prevent the robbery of government revenue, cooperation in managing international financial movements, strengthening cooperation in areas such as climate change and research, and strengthening international human rights and environmental regimes.

Speaking from a European perspective, Austrian development economist Werner Raza has suggested (as has Rodrik) that: 'In certain areas, a partial de-globalization and re-regionalisation of economic activities, respectively, for instance in the financial sector, in agriculture or with respect to public services seems warranted.'<sup>52</sup> In finance, aspects of de-globalisation are urgently required to prevent the rapid spread of crises and to help stabilise exchange rates at more realistic values.

Agriculture has always been a difficult area given New Zealand's interests in agriculture exports and the desire of other countries to protect food security and agriculture-based social and environmental values. That does not mean that New Zealand exporters need to give up ambition to extend markets (within environmental limits): growing incomes will increase demand. But this emphasises what we saw in the TPPA: that even small openings in new agricultural and other markets now come at an increasing cost to the rest of New Zealand in national sovereignty and democracy.

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<sup>50</sup> Capaldo, J., & Izurieta, A. (2016). *Trading down: Unemployment, inequality and other risks of the Trans-Pacific Partnership Agreement*. GDAE working paper 16-01. Global Development and Environment Institute at Tufts University. Retrieved from [http://www.ase.tufts.edu/gdae/policy\\_research/TPP\\_simulations.html](http://www.ase.tufts.edu/gdae/policy_research/TPP_simulations.html)

<sup>51</sup> For a fuller critique of the MFAT-commissioned model, see Coates, B., Oram, R., Bertram, G., & Hazledine, T. (2016). *The economics of the TPPA*. New Zealand Law Foundation expert papers no. 5. Retrieved from <https://tpplegal.wordpress.com/nzlf-expert-paper-series/>

<sup>52</sup> Raza, W. (2017, February 21). Global inequality, populism and the future of democracy. Social Europe. Retrieved February 28, 2017, from <https://www.socialeurope.eu/2017/02/global-inequality-populism-future-democracy/>

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