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The Covid-19 crisis has exposed the arbitrary way in which we have stitched globalisation together. It's time to go back to first principles, and tailor a new set of international rules around them

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What do you think of when you hear the word “globalisation?” It might well be the usual newspaper illustration—the container ship that moves merchandise round the world. And if cross-border commerce is what we mean by the G-word, then Covid-19 has brought it to its knees: the World Trade Organisation (WTO) is forecasting that it could sink by as much as a third this year.

Perhaps instead you imagine globalisation in terms of financial flows and border-straddling banks. In that case, the screens of red numbers seen on trading floors this year attest to there having been plenty of trouble on this front as well. Or perhaps you are an enthusiast, and think of our global order as about mutually

beneficial co-operation of governance. If so, you are likely finding the coronavirus crisis even more depressing. From Donald Trump’s branding of the disease as a specifically “Chinese virus” and his defunding of the World Health Organisation (WHO), to the violation of rules about sharing medical data and an unseemly scramble to secure masks and ventilators amid unilateral export restrictions, there is scant sign of global harmony just now.

The irony, of course, is that at the same time the virus risks setting globalisation (as we have conventionally understood it) spinning into reverse, it is also affirming anew our shared fate as human beings. That might seem like a paradox, but in fact our present-day globalisation is not and never has been the only way—or the best way—of meshing together our economies and other interests. And it is not only scholars in ivory towers who are wondering if this is a moment for a reset.

President Macron of France is both a determined economic liberal and former investment banker, and yet he used a major interview with the *Financial Times* in April to concede that amid the strains of climate change, inequality and “weakening democracy,” “we already had the feeling that the established mode of globalisation was coming towards the end of its life,” even before the coronavirus crisis hit. And that now, we needed urgently to establish a new “grammar of multilateralism.”

It is indeed a moment to reflect critically on the route we have taken, an approach I call “hyper-globalisation,” and to interrogate the principles that should guide our global rules. We can also begin to imagine what a well-crafted globalisation embedding those principles might look like.

The globalisation we have got

The first thing to understand about where we start from is that it didn't have to be this way. There was nothing foreordained in "globalisation" assuming a principally economic character, nor anything inevitable about (in Macron's recent words) a settlement in which "the consumer and the financier were the strong elements." Global supply chains and cross-border finance might *seem* to have been driven by fundamental trends in transportation and communication technologies; but the truth is little was predetermined about the globalisation we have got.

It runs on an extensive infrastructure of rules. Some of these are formal regulations written into explicit contracts, as with global trade agreements, certain banking regulations, or the European Union's *acquis communautaire*. Others are simply norms of good behaviour that are internalised by political leaders and officials, and then sometimes reinforced by transnational institutions such as the International Monetary Fund (IMF) and World Bank at moments when they enjoy leverage. This is the case, for example, with the presumption in favour of maintaining open borders to capital.

Sometimes such presumptions—or prejudices—are so ubiquitous that it becomes easy to forget that, in theory at least, there is nothing to prevent different choices being made. But we could have chosen instead to privilege completely different global rules, which gave priority not to economic or financial interconnection, but to other dimensions of interdependence. We might, for example and pertinently at this moment, have built a globalisation for public health—targeted at preventing and mitigating health pandemics, with not the WTO and the IMF at its centre, but instead the WHO that Trump is moving to defund. Under such a globalisation, nations would benefit from an effective advance warning system, a common information base, large medical research and vaccine development budgets, co-ordinated strategies for fighting emergencies, ample financing for poorer nations, regulated border closures, and prohibitions on moves that can only advantage one country by disadvantaging others, such as export bans on medical equipment.

Or—alternatively—let us imagine that we had constructed a globalisation focused on our enormous environmental challenges. Such a global order would be targeted at slowing climate change and managing its consequences, and would centre on agreements to do this. It would entail, at a minimum, nationally binding emission quotas for greenhouse gases and/or carbon taxes, a large common research budget for green technologies, and plenty of financing for transition to renewable energy in poorer countries.

Even within a specifically *economic* mode of globalisation, substantially different variants are conceivable. During the heyday of the Gold Standard, roughly from the 1880s to the First World War, globalisation operated differently from now. Workers were as free to move across national borders as capital, creating a very different balance of advantages and freedoms. The Bretton Woods rules, which governed the world economy in the decades after the Second World War, were partly written by Keynes, who envisaged capital controls to check the disruptive speculative financial flows that had wreaked havoc under the Gold Standard. Built into the architecture, too, was scope for national stabilisation policies, with fewer restraints on nations' fiscal and industrial

policies than has been the norm under post-1990s hyper-globalisation. Nevertheless, both international trade and long-term capital flows expanded rapidly. While trade in manufacturing was significantly liberalised under the General Agreement on Tariffs and Trade, governments were free to devise their own regulatory models. By contrast, under the more recent hyper-globalisation, the WTO (established 1994) has pursued a "deep integration" under which domestic regulations in health, environment, intellectual property and industry have come to be viewed as inefficient trade barriers.

Political settlements are the joint product of vested interests and prevailing ideas. Our present system of globalisation is no different. After the Bretton Woods regime ran aground with the oil shocks of the 1970s, many developing nations proposed a new mode of integration organised through the UN agencies. But in the end the west and its allies pushed through rules that served the interests of large corporations, financial markets, and skilled professionals quite well, but did not do much for others—those

who did not have the networks, skills, or assets to profit from global markets. Had there been powerful lobbies pushing for global co-operation over public health or the environment—and had those in power not bought into the misguided belief that "mainstream" economics dictated they pursue economic efficiency over every other priority, and ever-freer trade as an end in itself—then we might have erected one of the other types of globalisation I just sketched.

In sum, we ended up with today's globalisation not because of technology or forces outside human control, but by choice, in response to powerful voices demanding it (and prevailing narratives that legitimised it). Recognising it as a choice is liberating, because it allows us to begin imagining how we might have designed a different globalisation from first principles. What should those principles be?

The "spill-over" principle

The question that ought to determine whether a policy domain is ripe for global rules in the first place is this: is this a domain in which global co-operation and co-ordination is necessary, or can we leave decision-making to national authorities without great costs "spilling over" on to other nations?

Nearly all domestic policies create *some* spill-overs across borders. Consequently, the first temptation might be to apply global rules to discipline virtually all national practices. For example, our education policies shape our future "comparative advantage" in production, and hence tomorrow's gains from trade of other nations. When we acquire a more skilled labour force, some of our trading partners (or at least, important constituencies within them) may end up worse off because their skill-intensive exports will face tougher competition. So if we were being guided *solely* by the spill-over principle, education could not be safely left to national authorities. Or what about national rules on speed limits? They obviously influence consumption and so the price of fuel, and hence also the fortunes of oil-exporting nations. Suddenly, global disciplines are needed to set speed limits.

The reason that such examples seem outlandish is that there is a contending logic that pushes in the other, anti-globalist direction. Nations each have different needs and ▶

"Had powerful lobbies pushed for it, we might have had a globalisation centred on health, instead of trade"

circumstances, and national authorities are, in principle, the best judge of how to respond to those. This argument applies with special force in democracies, since no one has yet figured out how to consult the people in effective ways across national borders. But more generally, nations should be free to choose what is best for them. Such freedom can be valuable even when the argument for global co-ordination is otherwise unimpeachable.

The case for global rules does not get any stronger than in the face of health pandemics such as Covid-19—the virus has no respect for legal borders, and is a potent and almost archetypal spill-over. Yet, even here, deferring to the global architecture hasn't proved to be the automatic right choice. Many believe the WHO erred early on, underestimating the magnitude of the Chinese contagion, wrongly discouraging mask use by the public and coming out against shutting down international travel. Nations that ignored the WHO and decided to go their own way sometimes had good reason.

Every globalisation regime faces a central trade-off, even where the argument seems overpowering. Global rules have the advantage that they can, potentially, increase efficiency, reduce transaction costs, and multiply the benefits of scale. But they have the disadvantage of reducing autonomy, which may impede democracy, and can also inhibit diversity and experimentation in policy at the national level. And—as we have seen in the Covid-19 context with South Korean tracing and German testing regimes—that very diversity can sometimes be extremely useful in helping the world as a whole to learn lessons, creating a knowledge “spill-over” whose logic actually pushes against global uniformity. A well-crafted globalisation regime would pursue an appropriate mix of global efficiency and policy diversity, not simply maximise one at the expense of the other.

Two trump cards

Beyond this basic trade-off, there are two sets of circumstances under which the argument for global rules carries special weight. In the jargon of economists, these are “beggar-thy-neighbour” policies and “global public goods.” They clearly demarcate certain specific conditions where global rules are necessary from those where they are not.

Beggar-thy-neighbour policies refer to policies that provide benefits at home *only* to the extent that they impose costs on foreign countries: they are typically a negative-sum game for the world as a whole. Note that it is not enough that there be harm for others. The domestic benefits must be the direct result of that harm. The classic case is the abuse of monopoly power on world markets through trade restrictions. For example, some years back China imposed export restrictions on rare earth elements, used in many electronics products such as mobile phones. China has a near-monopoly in the

“The case for global rules does not get any stronger than with health pandemics”

production of these minerals and the policy was clearly aimed at jacking up world prices.

Another illustration is undervaluing the value of the national currency to gain a competitive advantage and “export” unemployment to other countries. This practice, common during the Great Depression, is what prompted the British economist Joan Robinson to coin the term “beggar-thy-neighbour.” A third example is tax havens. Some small nations such as Bermuda or the Cayman Islands maintain very low corporate tax rates to attract corporate HQs. This results in substantial tax losses for other, bigger and higher-tax jurisdictions.

Meanwhile, global “public goods” (or conversely “public bads”) refer to circumstances where the benefits (or costs) of national action are shared equally by all nations. The most significant example is climate change. Whether greenhouse gases are produced in my country or yours makes no difference to global warming. If I impose carbon taxes in mine, you benefit as much as I do. Under these circumstances, individual countries have strong incentive to “free ride” on other nations’ contributions, meaning they will individually and collectively under-invest in providing for the common good—sadly an all-too-apparent reality in the climate context. Our common humanity means that basic human rights—freedom from discrimination and degrading treatment, ideals that promise to protect us all—can be thought of as another global public good.

President Macron demands a new “grammar of multilateralism”

Joan Robinson first identified damaging “beggar-thy-neighbour” trade policies



Indeed, many aspects of fighting health pandemics have a global public good nature too. Early-warning systems, information collection, development of vaccines and medicines provide benefits to all nations regardless of where the investments are made.

These considerations clarify why climate change and public health in particular call for globalising policy. In these domains, we must move beyond the nation state and develop global rules that allocate responsibilities and prerogatives. On the flipside, these principles reveal that the case for global regimes is far weaker in other domains—including economics. Much of the political capital invested in recent decades in building rules for the world economy cannot be justified by either of our trump cards.

This may be a surprising claim. In the technocratic vernacular that is popular with the financial press, the world economy is a “global commons” that necessitates global co-operation, a reference to historic commonly-owned land which was, supposedly, ruinously over-grazed for want of agreed rules to regulate its use. But the metaphor is misleading. There are some exceptions to be sure, and I mentioned the most important ones previously: abuse of national market power, competitive currency manipulation, and tax havens really can wreak havoc under a free-for-all, and so demand the discipline of global rules. But the vast majority of the problems we encounter in international economics—including in relation to the basic dilemma of opening up to trade—derive neither from the need to avoid beggar-thy-neighbour policies nor from failures to provide for a global public good.

In economics, virtue is its own reward. The policies that expand the national economic pie also tend to be good for other nations. Openness to foreign trade and foreign investment, full-employment policies, price stability, appropriate prudential financial regulation, growth-promoting structural policies are all the cornerstones of a healthy global economy. Well-governed nations do not need persuasion from other countries to pursue such policies, because they are even more essential for the home economy to function well. Take free trade. As economists delight in demonstrating to first-year students, the point of free trade is to expand *domestic* consumption possibilities; it is not to confer benefits to other nations. The same is true for openness to long-term capital flows, successful pro-growth policies and macroeconomic stability. If there are good arguments for globalisation here, it should be possible to win them at the national level.

There is a significant caveat in the previous paragraph, though, and it shows up in the phrase “well-governed.” Incompetence or

the power of special interests frequently push governments to make mistakes that are costly to their own economies, and hence to others’ as well. Trade barriers or subsidies may redistribute income to politically well-connected firms or sectors. Regulators may err in allowing banks to take excessive risks, increasing the likelihood of financial crises. Failures of this sort are common enough. But they do not arise from weak global governance. They are the product of bad *local* governance. The costs—to consumers, taxpayers, financial stability—are borne primarily at home.

Global rules may enhance national governance in some instances. Information sharing, transparency, and rules that promote decision-making based on evidence cannot hurt. But there cannot be a presumption that any globalised regime will improve on domestic misrule. Global rules can be hijacked by special interests just as easily as domestic policies can, to subvert the broader public interest. Worse, the institutions of global governance are at one remove from democratic argument and the scrutiny of national media. In and among them, lobbies can sometimes operate in the dark—and be all the more effective for that. Perhaps the clearest example of this is how big pharma has managed to rewrite global rules on patents to preserve and increase monopoly profits.

The broader agenda of hyper-globalisation has likewise been set by multinational corporations and big banks, with labour, environmental and civil society groups typically on the defensive. Instead of targeting genuine domestic governance failures, or concentrating on the public goods or beggar-thy-neighbour rivalry that truly affects the whole planet, the global economic rules have been designed for the most part to privilege one set of interests over others in the tussle for resources. As nation states struggle, falteringly and inadequately, to co-ordinate their response to the truly shared problem of the pandemic, it is painfully apparent that the way they work together needs to change.

A well-crafted globalisation

What kind of globalisation should we seek then? First, we should promote global rules that promise to produce benefits for all, not just a few. This means we should prefer global rules that generate *large* overall gains. The trouble with the hyper-globalisation agenda is that the net gains are meagre. Take, say, the economic integration of the North American continent under Nafta in 1994. It created serious redistribution between different groups of consumers and producers across the United States, with wages of workers in affected sectors squeezed by an estimated 8 per cent over the course of the 1990s, and yet the aggregate boost to the US economy may have been as little as 0.1 per cent of GDP, making it extremely challenging to compensate those who had lost out—even if serious efforts had been made to do so. The problem is more acute when the benefits are highly concentrated. Consider the so-called “investor-state arbitration systems”: large American and European firms stand to profit significantly from investment arbitration clauses; but few others gain, and the cost are borne by host nations, ie all taxpayers.

In other areas, in sharp contrast, there are *huge* unexploited gains. Think of the still widely-restricted international mobility of workers. An increase in temporary labour mobility from poor to rich nations—through temporary visa programs and similar schemes—would generate massive gains. The politics of immigration is of course fraught, and that may be partly grounded in the economics: without complementary measures, increased labour mobility may threaten some workers in the advanced nations. But the magnitude of gains here should readily ►



permit schemes to compensate them, and so all stakeholders—migrant workers, workers in host countries, and businesses—should be able to gain at once. A complete opening of borders to foreign labour is neither feasible nor desirable. But a controlled expansion of work visas, particularly for lower-skill work, paired with appropriate redistribution of the gains, is an effective way of enhancing global incomes.

Beyond going for big gains that can be widely shared, we should limit global rules to areas where the argument for constraining national policies is strong. This means we should focus on disciplining beggar-thy-neighbour policies and securing global public goods. Global action against tax havens is an obvious priority, since tax havens are a clear and costly instance of a true beggar-thy-neighbour policy. The climate and (in many respects at least) public health are obvious global public goods. The huge effort made to secure recent trade agreements that have often yielded modest and maldistributed rewards, would have been far better rewarded if it had gone into limiting greenhouse gas emissions and preparing for pandemics. The shock therapy we have been forced to administer against Covid-19 looks like it could trigger the sharpest fall in global national income in living memory. It seems a fair bet that—even on the materialistic measure of GDP—we would have been more prosperous in 2020 if much of the political capital spent on hyper-globalisation since the 1990s had instead been dedicated to global efforts at preventative public health.

Finally, where there is no clear-cut case for global rules—either on beggar-thy-neighbour or global public goods grounds—our goal should be to preserve space for national policy autonomy and institutional diversity. We can never be sure that national governments will do the right thing for themselves (and thereby for the world economy). But as long as political representation and accountability are vested in national governments, we have little choice. Policy

experimentation, disciplined by national electorates, is the only path to prosperity all around.

If a complete reboot seems hard to imagine, recall how many previously unthinkable things governments have done in domestic policy over the last three months: closing down society and much of the economy, while collectively underwriting much of the income loss. There are signs that some political leaders, at least, are beginning to rethink international governance with the same radicalism. Macron, for example, suggested to the *FT* that while certain responsibilities might be sent back to nation states, a new cross-border “common ground” had to be marked out, which for him would cover “education, health, climate, biodiversity,” an entirely different “global commons” from that we have known.

The exact fields to focus on needs to be debated, and reasonable people may take different views. But in the end, a desirable, well-crafted globalisation would keep

away from fields where aggregate gains are small and many individuals will be significant losers, and focus on areas where global co-operation can make nations as a whole better off. In economics, this will produce a more permissive regime overall in trade and finance, but tighter rules in a few areas such as tax havens and international labour mobility. The real investment in building new global rules will have to come in non-economic areas—including human rights, climate change, and, of course, public health.

After all, it is not any tariff, quota or capital control that has led to so many container ships being stuck in port, and to almost all planes being stuck on the ground today. It is a virus that has sorely exposed the frailty both of us all as individual human beings, and of the arrangements we have devised to co-exist on this planet. If the experience prompts us to rewrite different rules from those that we have chosen up until now, then the world might—eventually—take something of value from this dark chapter. **P**

Dani Rodrik's latest book is “*Straight Talk on Trade: Ideas for a Sane World Economy*” (Princeton)

“The new global rules should not focus on economics, but other areas”

Armour: a German soldier fully kitted out to fight Covid-19

