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GLOBALIZATION AND THE CHANGING TRADE DEBATE

Suggestions for a New Agenda

THOMAS I. PALLEY

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Preface

The failure of the Doha Development Round of World Trade Organization (WTO) negotiations in July 2006 was the first major collapse of a multilateral trade round since World War II. Research Associate Thomas I. Palley sees the failure as an event that could mark the close of a 60-year era of trade policy largely centered on increasing market access and reducing tariffs, quotas, and subsidies. Doha's demise represents an opportunity to challenge the intellectual dominance of the current WTO paradigm, to expose the failings of the neoliberal model of economic development, and to reposition the global trade debate.

Palley suggests the development of an alternative trade agenda in association with an exposition of the faulty economics of the existing policy paradigm. A critical element of the new agenda is the need to recognize that trade is an instrument, not the ultimate goal, of policy. The real policy goal is economic development in the context of a fair, inclusive, and politically acceptable globalization.

Palley notes that classical comparative advantage theory no longer captures what is happening in the global economy. New structures of global production organized by multinational companies and retailing giants have changed both the character and the margins of global economic competition. The author also notes that free trade was not the route chosen by industrialized countries in their early stages of economic development. He further notes that economic policy has neglected the development of domestic demand, which has likely slowed growth and made it more unequal between developed and developing countries.

A new, alternative policy paradigm that addresses the economic realities of trade and globalization should emphasize labor and environmental standards, rules for exchange rates, and domestic demand-led development. Wage income is a critical source of demand, so linking wages to productivity can promote a virtuous circle of inclusive economic development. Labor standards are key because they are critical to establishing a floor for the global economy. These standards should be part of the rules of the global trading system so that southern hemisphere workers capture a larger share of income, thus promoting domestic demand growth and mitigating competition between workers. Moreover, labor unions are essential to developing a demand-led system of economic growth, since they correct labor market failures and link wages to productivity in a decentralized fashion.

A post-Doha agenda must permit developing countries to use tariffs and industrial policy as part of their economic development policy toolbox, and policy should be focused on consumption goods tariffs (as opposed to imported capital goods tariffs). The restoration of autonomous national policy (i.e., "policy space") links with the need for good governance and labor standards. This means that labor standards must be the bedrock of a 21st-century trade agenda aimed at refashioning globalization. There is also a need for international environmental standards (e.g., stripping away any competitive advantage achieved through environmental degradation), as well as trade arrangements that incorporate exchange-rate provisions explicitly. Palley suggests a tropical-products trade round involving commodities that are most beneficial to developing countries, such as sugar, coffee, and rice.

In sum, trade policy must be intimately linked with rules for labor markets, the environment, and financial markets, and with an understanding that trade impacts the character of competition, the socioeconomic structure, and policy space.

As always, I welcome your comments.

Dimitri B. Papadimitriou, *President*
October 2007

Globalization and the Changing Trade Debate

The failure of the Doha Development Round of World Trade Organization (WTO) negotiations in July 2006 represents an important event. Whereas there have been broad public protests against the current global trading system—Seattle in 1999, Cancun in 2003—this is the first full-blown collapse of a multilateral trade negotiating round since World War II. That collapse has created a significant opening for potentially repositioning the global trade debate.

The failure of the Doha round does not signify the end of trade multilateralism or a reversion to protectionism. Rather, it marks the close of a 60-year era of trade policy largely centered on increasing market access and reducing tariffs, quotas, and subsidies. Behind this change is the growing recognition that international trade is a critical element of globalization, and that globalization is a larger, more complicated policy project than merely facilitating cross-border flows of goods and services.

Trade serves to integrate and unify economies, which, as touted by advocates of trade liberalization, can often bring lower prices for consumers. However, it also dramatically alters the structure and dynamics of economies. For developing countries, it changes the avenues and policy possibilities for economic development. For developed countries, it restructures competition in both goods and labor markets, and the shift in balance of power between workers and firms has broad economic and political ramifications. These issues have now risen to the surface (as evidenced by the general public's concerns about globalization), rendering anachronistic Doha's traditional multilateral trade-liberalization agenda.

The new circumstance creates both opportunity and danger. The opportunity is to construct a fresh approach to trade that incorporates rules governing the parameters of global competition and mediating the integration of economies. Such rules can improve globalization by diminishing its impact on income distribution in developed countries, preventing race-to-the-bottom competition between all countries, and promoting sustainable economic development in developing countries. The danger is that this opportunity is not taken, in which case it is possible there could be a slide toward protectionism, particularly in the event of a deep global recession.

In effect, the failure of the Doha round signals the need for the creation of a 21st-century trade agenda that moves away from the traditional focus on trade liberalization to address questions of how to govern globalization. Successfully accomplishing this transition will require the formation of a new intellectual and political consensus.

Why Did Doha Collapse?

A good starting point for assessing the future challenges and possibilities is to examine why the Doha negotiations collapsed. One reason is that there appears to be a growing recognition that trade is a complicated phenomenon, and that the simple nostrums of "free trade" and "comparative advantage" do not capture this complexity. This recognition is present in both developing and developed countries. In middle-income countries (such as Brazil and Argentina) and the large developing economies (such as India), there is an increasing sense that traditional "Doha-style" trade agreements potentially compromise their development strategies. This is because these agreements rule out strategies and policies that favor domestically-based production.

In conjunction, there has been growing anxiety among industrialized-country electorates that traditional trade liberalization is driving an undesirable form of globalization. In particular, globalization has become identified with widening income inequality, wage stagnation at the bottom and middle of the wage distribution, and undesirable forms of competition predicated on the exploitation of workers and a disregard for the environment.

These electorate anxieties provided incentives and space for political leaders—in both the United States and Europe—to distance themselves from Doha's business-driven trade-liberalization agenda. Moreover, this lack of political support for the Doha round was further reinforced by agricultural interests in both the United States and Europe. These interests, in sectors such as sugar and cotton, were unwilling to give up existing subsidies and price supports, and put their political muscle behind stalling Doha.

Lastly, nongovernmental organizations (NGOs) contributed to derailing the Doha round by unmasking the excessive claims about the economic benefits of greater trade liberalization made by the international financial institutions (e.g., the World Bank) and mainstream economists.[1] In this regard, the work of the NGOs was especially useful to developing-country governments. These governments often lack the capacity for conducting their own economic analysis—an informational gap that was filled by NGO and activist research supporting developing-country arguments and policy positions.

What Now?

The mainstream press has published much commentary about the threat Doha's failure poses to the multilateral trading system. For example, in April 2006 the *Financial Times* published an op-ed by the chairmen of Nokia and British Petroleum claiming that "the credibility of the multilateral trading system" was at stake, and that failure of the round would "leave the trading and investment environment seriously damaged" (Ollila and Sutherland 2006). The following September, the *Wall Street Journal* published a comment by Britain's then Chancellor of the Exchequer, Gordon Brown, labeling Doha's collapse a "protectionist backlash" (Brown 2006).

Such remarks misconstrue both the causes and the consequences of Doha's failure. Rather than signaling a threat to international trade and the global economy, Doha's demise represents an opportunity to reposition the global trade debate. Taking advantage of this opportunity will require a twin-track strategy. One track requires developing an affirmative alternative trade agenda that is intellectually coherent and politically compelling. The other track requires continuing to chip away at support for the existing policy paradigm by exposing its faulty economics. Both tracks must be pursued simultaneously if the opportunity provided by Doha's failure is to be taken advantage of.

A critical element of a new agenda is the need to premise the trade debate on the recognition that trade is an instrument, and not the ultimate goal, of policy. The real policy goal is economic development in the context of a fair, inclusive, and politically acceptable globalization. This goal must frame a 21st-century trade agenda, which means abandoning the current "trade for trade's sake" approach to policy—an approach epitomized by the metaphor, coined by C. Fred Bergsten, now director of the Peterson Institute for International Economics, describing the global trade regime as a bicycle that would fall over if the Doha round failed and further trade liberalization stalled.

Challenging the Current WTO Paradigm

With regard to challenging the intellectual dominance of the current WTO paradigm, it is critical to continue exposing the failings of the neoliberal model of economic development that underlies the paradigm. This is a difficult task, because the neoliberal model is appealingly simple. First, it asserts a "one-size-fits-all" approach to policy, whereby its recommendations are suitable to all countries regardless of stage of development. Second, these policy recommendations are supposedly good for all, in the sense of always generating win-win outcomes. Thus, the model asserts that if a country adheres to a simple set of policies, including WTO-style trade policies, both the country and the global economy will benefit. This simplicity gives the neoliberal model great rhetorical appeal, which continues to pull policy in undesirable directions.

One approach to challenging the model is empirical. The economic record shows that the neoliberal policy mix has not delivered—witness Latin America, which applied the neoliberal Washington Consensus most radically and yet grew more slowly in the post-1980 Consensus era (Ocampo 2002). A second empirical challenge concerns the evidence regarding the relationship between trade and development. For instance, detailed statistical work by Rodrik and Rodriguez (2001) challenges the hypothesis that international trade spurs development, and instead suggests that countries that develop successfully become successful traders.

Another form of challenge concerns the estimation of the size of the welfare gains from further WTO-style trade liberalizations. One reason for Doha's failure was alternative model simulations showing that the proposed trade liberalizations produced relatively small global economic gains, even when these simulations used economic assumptions that produced gains from trade. Moreover, what gains there were accrued to the developed-country bloc: the gains for developing countries as a whole were approximately zero. There were also many significant net losers at the individual developing-country level (Polaski 2006).

A third form of challenge concerns the economic theory that has been used to justify and drive the WTO's trade-liberalization agenda. That agenda is justified by appeal to the classical theory of free trade, which is predicated upon the logic of comparative advantage. However, classical comparative advantage theory no longer captures what is happening in the global economy. Trade driven by global outsourcing is not a simple matter of balanced exchange based on comparative advantage. Instead, it rests on the new structures of global production organized by multinational companies and retailing giants such as Wal-Mart, and these structures have changed both the character and the margins of global economic competition (Palley 2007).

In today's world, where technology and methods of production are highly mobile, winning at trade involves strategic policy—which includes industrial policy, exchange rate policy, and tariffs. In such an environment, classical free trade is not the best development path, and this is now being confirmed by new theoretical evidence (Gomory and Baumol 2000; Samuelson 2004; Palley 2006a). These new theoretical arguments are supported by economic history, which shows that free trade was not the route chosen by today's industrialized countries, including the United States, in their early stages of economic development (Chang 2002).

Lastly, it is important not to be deceived by proposals that call for simply augmenting the Doha trade agenda with a new "helping hand" domestic policy agenda that includes wage insurance (Kletzer and Rosen 2005). Wage insurance aims to compensate workers who lose their jobs and end up with lower wages because of trade-induced job loss. It is a welcome policy idea, as it helps reduce economic risk and improve social well-being. Indeed, such insurance should be expanded to cover wider causes of job loss. However, wage insurance does nothing to address the fundamental failings of current trade policy, which rests on flawed economic logic. The only comprehensive solution to the trade problem is a new trade regime.

Domestic Demand-led Development and Labor Standards

A post-Doha trade agenda should fit with new thinking about economic development. Over the last two decades, economic policy has focused on international trade and growing the supply side, but policy has neglected the development of domestic demand (Palley 2002, 2006b). This failure to attend to domestic demand considerations has likely slowed growth and made it more unequal between developed and developing countries.

With attention fixed on international competitiveness, holding down costs and, therefore, wages is of primary importance. The focus on international competitiveness has also encouraged retrograde competition, as countries have tried to win competitive advantage by whatever means possible. Furthermore, this focus has contributed to destabilizing deflationary conditions in the global economy, since countries have added to global supply through export-led growth without similarly adding to global demand (Blecker and Razmi 2005; Palley 2003a). These failings suggest that policy must be repositioned so that it also focuses on developing the demand side of emerging economies along with the supply side.

Developing the demand side in turn leads to a more inclusive agenda. Rather than simply being a cost, wage income becomes a critical source of demand. Linking wages to productivity can then promote a virtuous circle of inclusive development. Higher productivity drives higher wages, which in turn increase demand to absorb the increase in productivity. At the same time, robust demand conditions encourage producers to invest, further raising productivity and advancing development.

Labor standards are key for such a demand-led model of development, as they help workers bargain for a fair share of productivity (Palley 2004, 2005). This points to the vital need for making labor standards part of the rules of the global trading system. In a global economy, where countries are pitted against one another through the activities of multinational corporations and global sourcing networks, labor standards are critical to establishing a floor for the global economy.

Historically, such standards have been represented as a form of "surrogate" protection intended to protect workers in the northern hemisphere against competition from workers in the southern hemisphere. This misrepresents the reality. Wage differences between north and south are so large that labor standards cannot significantly alter this source of southern competitive advantage. However, they can help prevent unfair wage erosion in the north, thereby actually maintaining wage differentials.

Additionally, labor standards can help southern hemisphere workers capture a larger share of income, thereby promoting domestic demand growth that spurs inclusive economic development. Over the last 20 years, innovations such as global sourcing have increasingly pitted southern hemisphere workers against one another in ever-fiercer competition. This has resulted in more of the global production value chain being shifted to northern hemisphere economies, where it is captured at the retail end by companies such as Wal-Mart, Nike, and Gap.[2] By establishing a floor for the global economy, labor standards are a means of mitigating competition between southern hemisphere workers, thereby enabling the south as a whole to capture more of the value it generates.

Labor standards give workers the right to form unions, and unions are essential to developing a demand-led system of economic growth. The history of today's developed economies (Western Europe, the United States, Canada, Japan, South Korea, Australia, and New Zealand) shows that, at some stage, all of them embraced trade unions as part of their transformation to mature developed-market status.

History suggests that unions are key to development, so the global trading system should therefore foster unions instead of facilitating attacks on them. Rather than being a market distortion, as claimed by neoclassical economics, trade unions may correct market failure associated with imbalanced bargaining power. Viewed in this light, trade unions are the "market-friendly" approach to correcting labor market failure, since unions set wages in a decentralized fashion. Although wages are determined through collective bargaining, they can differ across firms, with unions in more efficient firms negotiating for higher wages than those set in less efficient firms. In this fashion, democratic trade unions help establish a sustainable income distribution tied to underlying productivity that can support a consumer society.[3]

Tariffs and Industrial Policy

Another challenge for a post-Doha agenda is that it must permit developing countries to use tariffs and industrial policy as part of their economic development policy toolbox. That suggests moving away from the existing broad multilateral trade agenda in which the goal is total tariff removal to a narrower, more targeted trade agenda in which tariffs are lowered in some areas and strategically maintained in others

For many developing countries, tariffs are a significant and efficient source of government finance. These revenues are needed to fund public investment and public services that are vital for development and for ensuring that development serves all. They are an efficient source of finance because tariffs are relatively easy to collect, since imported goods are closely tracked and enter through a limited number of ports. At the same time, developing countries often lack the administrative capacity to tax domestic incomes and expenditures in the way that developed countries do.

Tariffs and industrial policy have also proven to be a valuable tool for promoting growth. First, they offer a leg up to domestic producers so that these producers can learn to compete. Second, they provide an incentive for multinational corporations to produce within a country's borders and thereby avoid the tariffs imposed on imported production. These positive impacts are confirmed by the historical record, which shows there was a positive correlation between growth and tariffs in the 19th century (O'Rourke 2000).

Finally, as part of the reevaluation of the economic policy role of tariffs, it is worth reviving and emphasizing the distinction between tariffs on imported consumption goods and tariffs on imported capital goods. The latter are an input into production so that capital-goods tariffs make a country less competitive and hinder development by increasing the costs of production. This suggests that the policy focus should be on consumption goods tariffs. Additionally, to the extent that imported consumption goods are luxury goods, this lends a progressive income-redistribution dimension to tariffs.

The great challenge with tariffs and industrial policy is making sure they do not become captured by special interests, causing them to become sources of rent rather than a force for development. This speaks to placing tariffs and industrial policy in a broader policy frame of domestic competition that ensures competition is not neglected. It also speaks to the importance and challenge of good governance.

Policy Space, Governance, and Labor Standards

The need to restore a role for tariffs and industrial policy links with larger concerns about "policy space" and how globalization is reducing such space. As capital becomes more mobile and policy works both to lower barriers between economies and to synchronize rules across countries, the space for autonomous national policy seems to be shrinking. Reestablishing a role for tariffs and industrial policy can contribute to restoring policy space. However, with restoration of policy space comes the need for good governance, and that links back to the need for labor standards.

Not only do labor standards yield significant conventional economic benefits for developing countries and the global economy, they also yield significant political benefits. First, labor standards are strongly and positively associated with democracy (Palley 2005). Second, poor governance is increasingly viewed as a significant obstacle to development. By giving workers increased voice, labor standards may improve governance, giving such standards an additional development rationale.

A perennial problem in developing countries is the problem of "Who will guard the guardians?" Giving policymakers the space to conduct policy can be dangerous if the policymakers cannot be trusted. Free traders often assert that free trade is a "two-for-one"; that is, it improves economic efficiency and raises income, and it also guards the guardians by increasing competition and competing-away rents. A parallel argument holds for labor standards, which are also a two-for-one, since they (1) promote economic development and (2) guard the guardians by strengthening worker bargaining power and promoting democracy.

In a sense, labor standards are both a "means" and an "end" of development. They are a means because they contribute to policy efficiency and a structure of income distribution that advances development. They are an end because they promote respect at work and greater political freedom. Linking trade with labor standards can therefore ensure that trade serves to promote development, and that globalization is fair, just, and politically acceptable. This means that labor standards must be the bedrock of a wholly new trade agenda aimed at refashioning globalization.

Moving the labor standards agenda will require a multifaceted approach. At the national level, trade negotiators should make labor standards an official policy priority to be pushed in all multilateral and regional forums. Labor standards should also be included in bilateral trade arrangements, and multilateral progress can be advanced by building up a core group of countries that have signed on for labor standards at the bilateral level. Allowable trade preferences in the form of tariff and quota relief can also be used as a carrot to induce developing countries to sign on to the labor standards agenda. Most importantly, there is a need to change the climate of opinion about labor standards, and to build a global echo chamber supporting such standards; the International Monetary Fund and the World Bank, with their massive networks of economists and public opinion outreach, must come on board and endorse labor standards with vigor and openness. Finally, NGOs have an important role to play in this process by directly advocating labor standards and pushing governments and multilateral institutions to make these standards part of the rules of the global economy.

Environmental Standards

In addition to labor standards, it is also clear that there is a need for international environmental standards, particularly regarding greenhouse gases and global warming. Best of all would be the adoption of common, binding standards across countries. However, in the absence of common standards, countries will need to have the right to border-adjust for pollution costs that have international impacts.[4] Such border-adjustment is needed to prevent the environment becoming part of the profit margin of international economic competition, and to protect countries that impose high environmental standards on domestic producers from unfair competition from countries that impose low or no standards. The mechanism of protection is simple: imports from countries with low standards would face a tariff equal to the international environmental costs of production, thereby stripping away any competitive advantage achieved through environmental degradation.

Exchange Rates and Trade

A last critical element of a post-Doha trade agenda is exchange rates. Historically, exchange rates have not been considered part of trade policy, and they have been excluded from the rules governing international trade. Instead, trade policy has focused on market access issues, tariffs, and subsidies. This focus reflects the fact that exchange rates have been treated as a financial matter that is separate and distinct from the real world of trade. This policy dichotomy is reflected institutionally in the fact that exchange rates are left to central banks and treasury departments. It also parallels the thinking of economists who separate exchange rates from trade theory and treat long-run trade patterns as being independent of exchange rates.

However, not only do exchange rates have temporary effects on trade patterns, they can also have permanent long-run effects by influencing the location of industries (Gomory and Baumol 2000; Palley 2003b, 2006a). Moreover, these influences have become larger and more significant in the era of globalization, because economies are more open and production is more mobile.

Trade policy has yet to catch up with this fact, and still operates as if trade and exchange rates were separate. In the United States, this policy failure is evident in the China trade deficit. China has been pursuing a policy of export-led growth that relies on an undervalued exchange rate to make its manufactured goods internationally competitive and to attract new foreign direct investment in manufacturing. The result has been a tidal wave of imports from China into the United States, closure of U.S. manufacturing plants that compete with Chinese goods, and the relocation of production and new investment to China. The United States has been stymied by this development because the trade agreement giving China access to U.S. markets has no provisions guarding against the use of undervalued exchange rates to gain market share. This situation is unsustainable and could potentially generate a trade war.

Current U.S.-China trade problems, therefore, speak to the need for future trade arrangements to explicitly incorporate exchange-rate provisions. In the era of globalization, exchange rates matter more than ever—which means that exchange-rate issues and disputes are likely to recur. Absent provisions against inappropriate use of exchange rates as an instrument of international competition, the global trading system could break down. One risk is that it could collapse in a flurry of recriminations over unfair trade deficits and resulting job losses. A second risk is that it could be drawn into a round of competitive devaluation among countries, which, in turn, could produce financial turmoil and economic dislocation reminiscent of the 1930s.

Guarding against these risks requires rules governing exchange rates and trade, and the need for some form of global system of exchange-rate management. That provides another illustration—this time concerning financial market arrangements—of how trade can no longer be considered in isolation.

A "Tropical Products" Trade Round of Trade Liberalization

Reframing the global trade agenda to incorporate the above issues is likely to take time, and likely to be contentious. In the meantime, while that process works itself out, there is still some room for small-scale, targeted multilateral trade liberalization that advances development in the southern hemisphere while producing benefits in the northern hemisphere. Advocates of a new global trade regime should support such measures, as their support makes clear that they are not protectionist.

One suggestion for beneficial incremental trade liberalization is a tropical-products trade round involving commodities such as sugar, cotton, coffee, cocoa, rice, and orange juice (Palley 2006c). Such a trade round could focus on those commodities that are most beneficial to developing countries and those (northern) subsidies that are most damaging. Trade predicated upon the theory of comparative advantage still holds for these commodities, and there are trade gains to be had by all sides.

The advantages of a tropical-products trade round are numerous. First, it would refute the charge of corporate globalizers who claim that those who opposed the Doha round are opposed to trade in general. Second, the tropics contain the world's poorest countries, and a tropical-products trade round would truly help them. The agricultural liberalization proposed in the Doha round did not help tropical countries, because they are significant importers of northern agricultural products (e.g., cereals, meat, and dairy). Consequently, elimination of northern subsidies as proposed under Doha would have raised world prices of those products, to the detriment of southern countries. Contrastingly, a tropical-products trade round would reduce northern production of tropical products (cotton, sugar, and so on) that compete with southern production, so that any induced price increases would raise southern incomes to the benefit of the south.

In this regard, a tropical-products trade round that involves sugar products, including ethanol, promises particularly clear economic and environmental benefits. Current U.S. policy imposes a large tariff on Brazilian sugar-based ethanol, which is the cheapest form of the fuel. That tariff has encouraged production of U.S. corn-based ethanol, which has increased U.S.

demand for corn and driven up the price. That in turn has caused an increase in food prices and contributed to higher inflation, which has hurt consumers and the economy. Removing the tariff on imported sugar-based ethanol provides a clear example of how a tropical-products trade round could generate win-win outcomes.

More generally, there are good economic reasons for northern countries to support such a round. First, eliminating certain specific agricultural subsidies would result in large government budget savings to northern taxpayers. Second, consumers would gain, as prices decline with the elimination of quotas. Third, northern manufacturing workers would have no interest in opposing a tropical-products round since they would benefit as consumers and taxpayers, while manufacturing would essentially be off the (bargaining) table. Fourth, northern production of tropical products is often environmentally damaging, as exemplified by the impact of growing sugar cane on Florida's everglades. Finally, northern producers of tropical products are poorly positioned politically to block such an approach, as they tend to be large agrobusinesses whose political profile is unappealing. This contrasts with confronting subsidies for dairy and grain farming, which have a different political profile that includes small family farmers.

Politics and Ideas

For the last 50 years, trade agreements have emphasized market access and tariff, quota, and subsidy reductions. Additionally, the last 20 years have seen trade agreements increasingly peppered with intellectual-property and investor protections. The failure of the Doha round of trade negotiations suggests that this approach is politically exhausted.

In the public's mind, trade is now firmly connected to globalization, and trade and globalization are viewed as significantly responsible for wage stagnation, widening income inequality, and increased job insecurity. Trade may indeed result in increased exotic varieties of beer on supermarket shelves, but that does not compensate for heightened economic insecurity and the disconnection of wages from productivity growth

The new political conditions created by the realization that existing trade policy and the current path of globalization are not serving ordinary people well contributed importantly to the failure of the Doha round.

Public disenchantment with globalization and existing trade policy points to the need for a new policy paradigm that addresses the economic realities of trade and globalization. Doha's failure provides an opportunity to begin transitioning to this much-needed new policy paradigm.

The corporate lobby that has driven the existing paradigm is extremely powerful, and it stands ready to block change with claims that the economic roof will cave in if countries abandon the path of neoliberal globalization. Countering these claims will require a two-pronged strategy that exposes the overly simplistic economics of the neoliberal model while advancing an affirmative alternative trade paradigm that has political appeal and discredits charges that those opposed to corporate globalization are Luddites, or protectionistic.

That alternative paradigm, with its emphasis on labor standards, environmental standards, rules for exchange rates, and domestic demand-led development, is now clear to see. Trade policy cannot be developed in isolation, as has been the past approach. Instead, it must be intimately linked with rules for labor markets, the environment, and financial markets, and with an understanding that trade impacts the character of competition, the socioeconomic structure, and policy space.

The last quarter of the 20th century witnessed the birth of corporate globalization, of which the Doha round of trade-liberalization negotiations was a part. Looking back, historians may one day view the failure of the Doha round—the first round of multilateral trade negotiations to fail in 60 years—as a turning point. That failure makes space for a pause in reaching global trade agreements—a pause that should be followed by reorientation of the global economic system to include labor and environmental standards and a reining in of extreme corporate power.

Notes

1. See, for example, Polaski (2006).
2. Gereffi (1994) provides a seminal analysis of global value chains and how the global sourcing strategies of U.S. retailers have shaped the distribution of value in the global economy. See also Hamilton (2005).
3. This contrasts with a government edict approach to wage setting. An edict-based approach can get income distribution right, but it is not sustainable because it is not linked to underlying productivities. Consequently, it results in mispricing and market distortions that disrupt and reduce economic activity because wages and prices are set incorrectly.
4. Such pollution can be distinguished from local pollution that only affects the locale or country of production. There is a clear economic rationale for border-adjusting the costs of international pollution since those costs fall on others. How to deal with local pollution is more complex, the claim being that countries have a right to choose how polluted they want their local environment to be so that local pollution should not be subject to international scrutiny and border adjustment.

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