New Global Rules, Policy Space and Quality of Growth in Africa

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The approach and the thesis
The ‘dual role’ of Global Rules

- We situate the problem of ‘global rules’ in historical context and analyze the ways in which the **new global rules (settled by new ‘global rulers’) affect the quality of growth in developing countries**

- **Global rules** are understood as **political-institutional mechanisms** affecting processes of value creation and appropriation at the global level, in particular by

1. **Facilitating the tendency toward concentration** (at the national and global levels) –section 2
2. **Shrinking the policy space**, especially for developing countries entering the new globalisation phase (post 1980s) – section 3

Outline

1. **Global rules: Old and New**

   From unequal treaties (XIX – mid XX), to the fall of colonialism (1950s-1960s), up to the new wave of globalisation and 'global rules' (1980s)

2. **The new wave of globalization: new global rules, concentration and quality of growth**
   - How the new global rules have led to increasing concentration in almost all sectors (endogenous asymmetries in global production) and in the distribution of income from the value they create
   - How the new global rules are shaped by powerful groups (new global rulers) and, in turn, how these rules reinforce the same groups

3. **Surfing the new wave of globalisation: new global rules and the policy space in Africa**
   - How a selection of global rules (including standards, ISDS, IPR, non-agricultural market access etc.) facilitate concentration and reduce policy, negatively impacting different quality of growth dimensions (economic, social and environmental).

4. **Global rules: Priorities for Reform**

Global rules: Old and New

The Unequal Treaties Phase

- Between the early 19th century and the mid-20th century, **'unequal treaties' were forced upon the weaker countries that were not formally colonies** (starting with the newly-independent Latin American countries in the 1810s/20s (these ended in the 1870s/80s), a string of nominally independent countries including the Ottoman Empire (Turkey today), China, Siam (Thailand), Persia (Iran), Korea, and even Japan were forced to sign such treaties.

- Unequal treaties
  - **deprived these countries of the right to set their own tariffs** ('tariff autonomy'), which made it impossible for them to use infant industry protection
  - **introduced the concept of 'most favoured nation' (MFN)**, which enabled all the countries that signed (unequal) a treaty with a weaker country to get a more favourable treatment, if one of them manages to extract it

Global rules: Old and New
The post-colonial phase

- By the 1920s and the subsequent wave of de-colonisation (1940s -1970s), the imperialist countries significantly loosened their grips on what the developing countries could and could not do.

- **The new global regime of trade, embodied in the GATT, put only mild restrictions on the trade policy of developing countries, with the choice not to sign up to the agreements that they don't want (so-called plurilateralism).**

- Within this relatively permissive framework, the need for infant industry protection and other industrial and trade policy measures were widely recognised

Global rules: Old and New
The new wave of globalisation

- **Policy space has gradually been restricted by new global rules.** However, unless developing countries have signed bilateral agreements with the rich countries, there is still a certain amount of 'policy space'

- The political-institutional imperialist dynamics of value creation and appropriation that characterized the colonial era have been recast in **more sophisticated political-institutional mechanisms** (e.g. IPRs system, principle of national treatment, Investor-state-dispute settlement, international standards)

Global rules: Old and New
The new wave of globalisation

Example – International standards:

Producers in developing countries are confronted by:

- a myriad of specific process and product standards settled by governments and other actors (also private) in industrialised countries
- the process whereby these are settled is not fully accountable and the standards remain opaque and present inconsistencies (unlike tariffs and quotas they are not publicly codified)
- there are no mechanisms to resolve conflicts (buyer companies or countries decide on 'standard conformance')

Note: standards are used as entry barriers also between industrialised nations, against 'too sophisticated' products (Example: multifunctional medical device machineries)

Global rules: Old and New

The new wave of globalisation

The new global rules have played a 'double role':

1. **Facilitating the tendency toward concentration** (at the national and global levels)
2. **Shrinking the policy space**, especially for developing countries entering the new globalisation phase (post 1980s)

The new wave of globalisation
Concentration

Sectoral concentration: Tendency toward extreme concentration in almost all sectors of economic activities and in the distribution of income from the value they create

Geographical concentration: The big winners in this process — monopolistic and oligopolistic firms — are almost without exception situated in the Global North

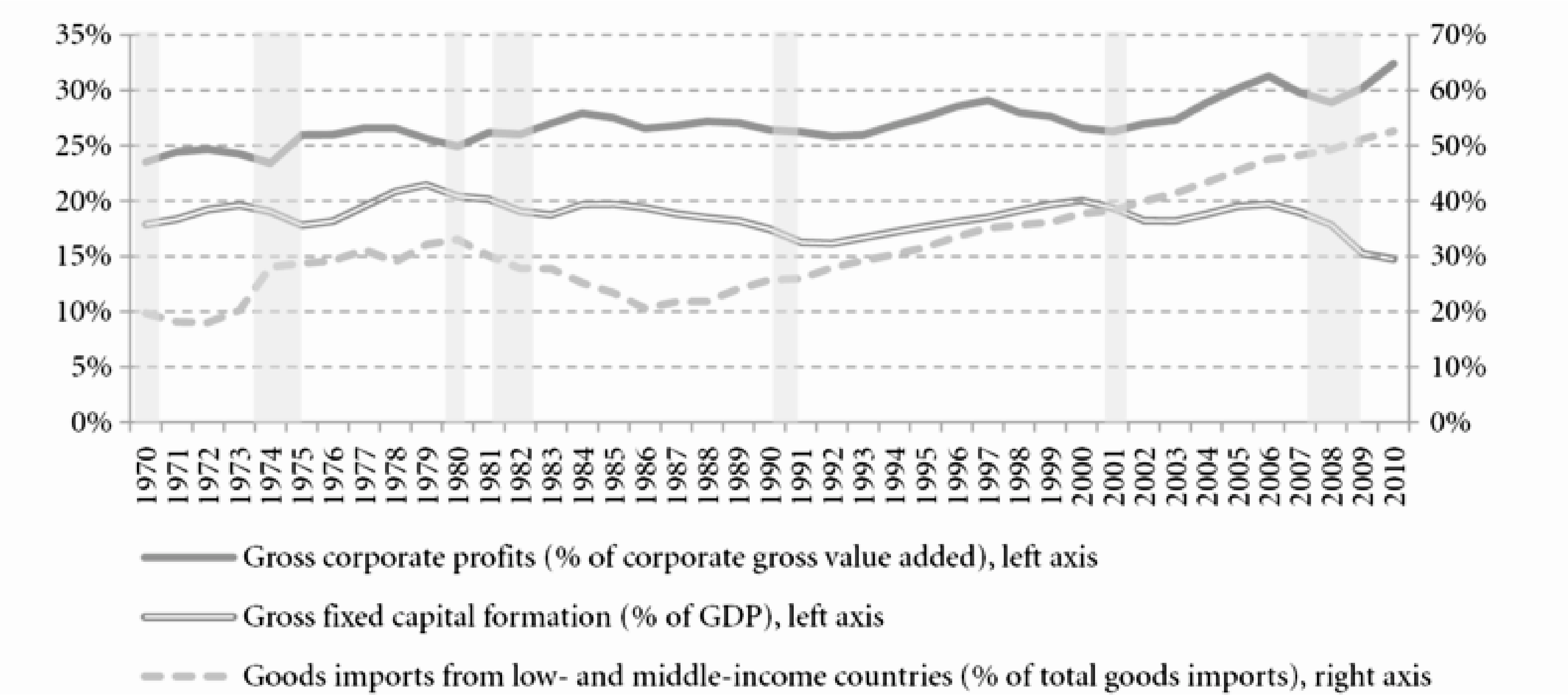
The new wave of globalisation

Sectoral Concentration – Global Market Shares

Firm	Business activity	Market share	Source
Aerospace			
Boeing	commercial aircraft deliveries (100+seats)	47	FT, 28 July, 2005
Airbus	commercial aircraft deliveries (100+seats)	53	FT, 28 2005
Autos			
GM, Toyota, Ford, VW, Renault-Nissan, Daimler-Chrysler	automobiles	67	DaimlerChrysler, 2005
IT/electronics hardware and software			
Intel	micro-processors	80	FT, 20 January 2006
AMD	micro-processors	15	FT, 20 January 2006
DSL	top 2 firms	57	FT, 19 May 2001
Fast-moving consumer goods			
Coca-cola	carbonated soft drinks	51	Annual report, 1998
Gillete	razors	70	MSDW, 1998
Nike	athletic foot ware	33	FT, 4 August 2005
Adidas/Reebok	athletic foot ware	25	FT, 4 August 2005

The new wave of globalisation
Concentration of value

U.S. firms - increasing corporate profits, decline in investment



Import, profit and investment shares, United States, 1970-2010. *Source:* Milberg and Winkler, 2013. Data: U.S. Bureau of Economic Analysis, National Income and Product Accounts; United Nations (UN) Comtrade. Gay bars correspond to U.S. business cycles recessions according to the definition of the National Bureau of Economic Research.

The new wave of globalisation

Concentration of value

U.S. productivity increases vs. compensation (Milberg and Winkler, 2013)

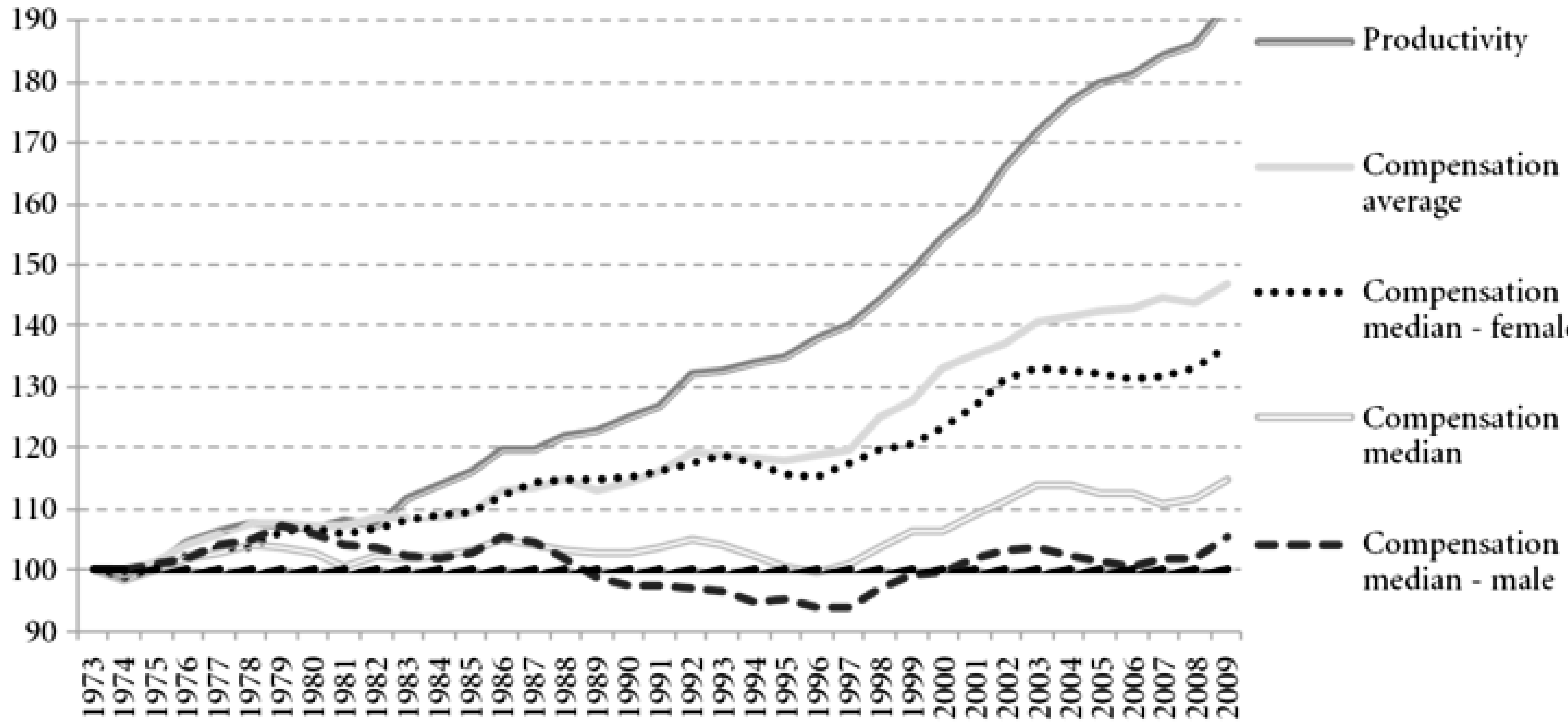


Figure 4.2. Productivity Growth and Hourly Compensation, Index (1973=100), United States, 1973–2009. *Sourc*
Own illustration. Data: Economic Policy Institute analysis based on Bureau of Labor Statistics and Bureau of Economic Analysis data. Note: Compensation = hourly compensation, Productivity = Output per hour.

The new wave of globalisation
Geographical Concentration

Although these tendencies affect both, rich and poor countries, they place a greater burden on the latter:

(i) The big winners—oligopolistic firms — are almost without exception situated in the Global North

94% of Fortune 500 (ranked by sales revenue)

96% of FT 500 (by market capitalization)

All the top 700 companies by R&D spending

(Nolan, 2007)

The new wave of globalisation
Geographical Concentration and Endogenous Asymmetries

- **(ii) The ‘endogenous asymmetries’ of globalized production:**

  oligopolistic lead firms at the top, and competitive markets among the lower-tier suppliers

Also, there are political machinations and power dynamics that may not be so ‘endogenous’ to the dynamics of globalized production, like the setting of global rules that favor (Northern) oligopolistic firms

The new wave of globalisation

Global rules facilitate concentration

- **(iii) The global trade and investment rules — largely a product of the political lobbying of oligopolistic firms— have enabled them to increase barriers to entry, to monopolize production and to appropriate increasing shares of the value it generates**

For example:

- **Intellectual property rights**: as (partially) mechanisms for extracting rents and as barriers to entry
- **Standards**: can be used as barriers to entry rather than quality and safety assurance mechanisms
- **Investor-State Dispute Settlement:** help monopoly firms to extract $$ from developing countries that could otherwise be invest in industrial development and human development
- **Market access and capital flows:** Reduction of barriers to trade and capital flows which facilitate the expansion of markets for oligopolistic firms.

Surfing the new wave of globalisation: new global rules and the policy space in Africa

These global rules also shrink the policy space available for industrial development:

- **Investor-State Dispute Settlement (ISDS)**: in addition to facilitating transfers, as discussed above, ISDS also creates regulatory chill, restricting policy space *de facto* and strengthening the coercive capacity of *de jure* policy space restrictions like the following.
- **Performance requirements restrictions:** local content requirements, technology transfer. Pervasive in the investment chapters of FTAs and throughout BITs, as well as in procurement chapters
- **Non-agricultural market access (NAMA)**: restrictions on the use of tariffs, quotas, and technical barriers to entry — key mechanisms for fostering national industries. Even creative technical barriers are being progressively curtailed.
- **Capital controls**: restrictions on capital controls make it difficult to navigate long-term balance of payments problems and to manage profit repatriation in a way that is consistent with industrial policy objectives.

The Global Rules-Policy Space-Quality of Growth Matrix

New global rules (Regulations)	Concentration	Policy space/de facto policy space (Instruments)	Quality of Growth (Dimensions)
ISDS	Transfers from rich to poor countries	Regulatory chill	Economic sustainability SDGs 8, 9 and 10, Social sustainability SDGs 1 – 7, 10, 16
IPR	Monopoly rents, barriers to entry	Curtails technology transfer, ability to produce generics	Economic sustainability SDGs 8, 9 and 10, Social sustainability SDGs 1 – 7, 10, 16

Wrap up

1. **Global rules: Old and New**

2. **The new wave of globalization: new global rules, concentration and quality of growth**

3. **Surfing the new wave of globalisation: new global rules and the policy space in Africa**

4. **Global rules: Priorities for Reform**

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Comments are welcome, thanks

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