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Implications of Economic Globalization for Nation States

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Abstract

This essay looks at the question of whether globalization unites and/or divides nation-states in the context of what can be broadly termed as 'economic globalization'. The author analyses the issue our using two case-studies: one is the 2013 Bali Ministerial Meeting of the World Trade Organization, and the other is the burgeoning of regionalism in international political economy (with the proliferation of Regional Trade Agreements). The author provides his candid observation on potential implications economic liberalization on nation states in years to come.

Keywords: Economic Globalization, Nation States, World Trade Organization

What is Economic Globalization?

While any form or kind of globalization is hard to define and adequately describe, the approach taken here is that we must begin somewhere. We need a working definition which will act as a starting point and allow us to explore some issues of importance in depth. In this regard, we define 'economic globalization' as increased global economic connectivity, characterized by the increased flow of capital, labour, goods, and services. Whether this flow occurs 'freely' or not depends on the particular context. For instance, within the European Union, all four flow 'freely' i.e. without any barriers. In this regard, it is important to understand the intellectual debate behind 'free trade' and 'protectionism', for it is this age-old debate which still informs various policies in nation-states of both the developed and developing worlds. The dominant theoretical paradigms in this regard are mercantilism, liberalism, and critical theory (Marxism, feminism, environmentalism etc.).

Theories of Economic Globalization

A central decision in economics is –whether to 'buy' or 'make'. This is probably the most fundamental idea over which debates have taken place for centuries. To put it very simply, mercantilists argue for 'make', regardless of cost. Liberals argue for 'buy' if cheaper. Critical theorists ask who is 'buying' from whom, if they are indeed buying, and what is the medium of exchange (Emmanuel 1972). While this simplification illustrates the arguments with respect to goods and services, they can be extended to labour and capital mobility as well.

Mercantilists, such as Alexander Hamilton and Friedrich List, prioritize 'national interest', usually in terms of economic welfare. They urge for protection of domestic players from foreign competition. They believe in import-substituting development strategy. As a result, they look 'inward', that is, at improving domestic competitiveness, instead of opening up domestic markets for foreign players or outsourcing of manufacturing and service to low-cost producing countries like Vietnam or Bangladesh. Mercantilists have a lot of influence over policymakers and the larger public, and the recent protests in the United States (by the members of auto and agricultural sectors) and Japan (by agricultural sector) against the Trans Pacific Partnership exemplifies it. Furthermore, mercantilists see the world economy as a zero-sum game, one state's loss being another's gain; second, more importantly, they do not agree with free trade advocates that 'trade benefits everybody'. If and when it

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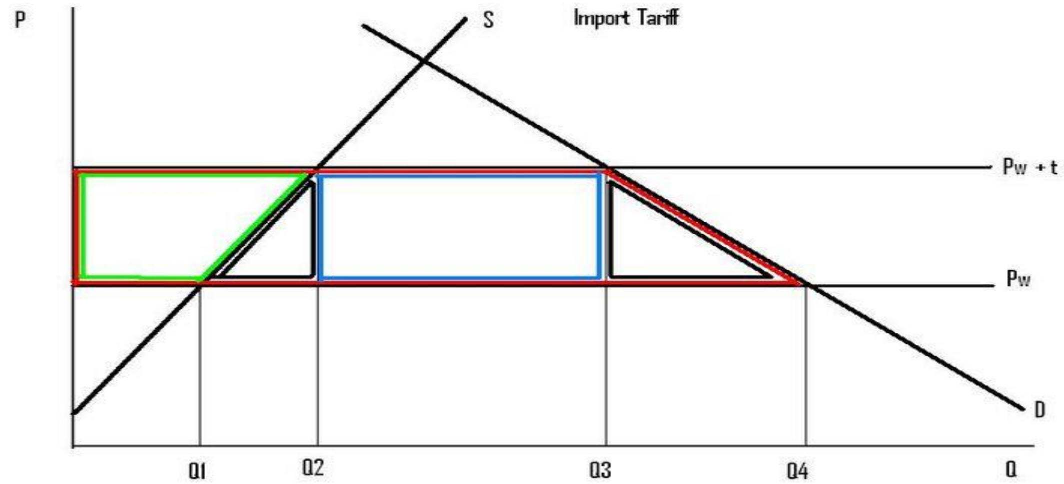
does, the gains from trade are unequally distributed and favour those with greater economic and political power (O'Brien and Williams 2013, p. 10). For instance, the United States is estimated to gain $77 billion out of the total 'global' income benefits of $223 billion per year (Botsford, 2014).

Liberals, such as Adam Smith and David Ricardo, in stark contrast to mercantilists, do not see the world as being a zero-sum game and stress on the possibilities and benefits of cooperation. Given that we live in a highly interdependent world, it makes sense for states to cooperate with each other, and reap the benefits of trade on the basis of the comparative advantage principle (O'Brien and Williams 2013, p. 13). When states cooperate, the economic pie becomes bigger and everyone will therefore get a bigger share. They look towards trade as the main driver of growth and prosperity, and believe in market delivering the best possible outcomes for everybody. While there is no single liberal perspective, there is more or less a broad agreement among the liberals that government interference usually causes more harm than benefit.

Critical theorists perceive the global trading system as being inherently exploitative. They see 'free trade' as resulting in increasing inequalities across the globe, not only between the rich and the poor within a particular country but also increasing the wealth of the 'core' at the expense of the 'periphery' (Santos 1970, Cox, 1996). They see the advocacy of free trade as representative of attempts of the United States and European Union, the dominant economic powers, to further their own economic and geopolitical interests.

Given the opinion held by a section of intellectuals that free trade does not benefit all, it becomes important for us to understand why the idea is hegemonic today. Let us examine it with the help of a diagram.



Source: http://worthwhile.typepad.com/worthwhile_canadian_initi/2013/10/teaching-tariffs-vs-taxes-in-a-smallopen-economy.html (The website's diagram was originally taken from Mankiw, Keebone, and McKenzie.)

As reflected in the diagram, prices are determined by supply and demand. Producers tend to supply more at higher prices. Consumers tend to demand more at lower prices. At world price Pw, the country's domestic producers are willing to supply quantity Q1 and the demand from consumers is quantity Q4. Now, an assumption is made here that foreign producers have a relatively more efficient production technology, which means that they can produce the same quantity as the domestic producers at a much lower cost or produce more for the same price. Because they are more efficient, they are willing to supply a lot more than Q1 at a price Pw. In the absence of any barrier to trade (such as tariff or quota restriction), there is a free flow of goods and services across countries. Therefore, the difference in the demand and supply - Q4-Q1 – is supplied by foreign producers. In other words, quantity Q4- Q1 is imported from abroad.

Although the domestic producers are not willing to supply more than Q1, they are not happy about the foreign competition either. So, they lobby the government to impose a barrier which will curb imports. The government decides to impose a tariff i.e. a tax/duty on imports. It could be a fixed value or a percentage of the value of imports. With the imposition of a fixed tariff, the price of imports now increases from Pw to Pw+t, t being the tariff. With the price increased, domestic producers are willing to supply quantity Q2 (which is greater than Q1). Because of the price increase, consumers now demand less. They demand quantity Q3 (which is less than Q4). So, now, foreign producers supply the difference Q3-Q2, which is less than Q4-Q1. What essentially happened here is that the government, by curbing demand, reduced the quantity of imports.

The green trapezium is what the domestic producers gain because of the imposition of the tariff t. The government accrues a revenue equal to the area of the blue rectangle. It accrues this revenue because, despite the introduction of tariff, the country is still importing quantity Q3-Q2. The revenue is given by the product of this quantity and the tariff rate. The left triangle is a welfare loss called 'deadweight loss' because a less efficient domestic production has replaced the more efficient foreign production. The right triangle is also a welfare loss because domestic consumers are now consuming less because of the 'artificial' price rise (price rise is considered artificial because it was not a result of changes in market supply and demand but government intervention). Similar results can be shown for other kinds of trade barriers such as quotas, export subsidies, voluntary export restraints etc. To reiterate, consumers lose and producers win. Hence, liberals argue for free trade. Before going into the political aspects of why free trade has gained currency among policymakers, especially in the West, we will briefly look into the levels of economic integration and what are the pros and cons of more integration.

Degrees of Economic Integration

The most basic level of economic integration is the creation of a free trade area. A free trade agreement implies the removal of all kinds of trade restrictions on goods and services. An example would be NAFTA or the North-American Free Trade Agreement between the United States, Canada, and Mexico. A free trade agreement (FTA hereafter) specifies nothing on how member states should conduct trade with third countries. This means the individual member states are fully free to decide on their tariffs and non-tariff barriers (NTBs) with respect to countries that are not part of the free trade area.

This often creates problems, usually around the 'country of origin' principle. Let us elaborate upon this, for it provides one of the rationales for deeper economic integration. What one needs to remember about a free trade agreement is that it is preferential, meaning the benefits are applicable only to the goods and services originating in any of the member states. The benefits are not to be shared with non-members. However, the non-members can be impacted because of the FTA. Suppose, the United States is importing yoghurt from Greece. Because there are no free trade agreements between the European Union and United States, Greece exporters will have to pay a tariff on the yoghurt. Let us assume that Canada has a lower tariff rate than United States. Now, Greece can exploit this tariff rate differential by exporting it to Canada and re-exporting it to the United States from there. It becomes a problem when the United States blocks it from entering its territory or tells Canada to pay a tariff because the yoghurt is not actually from Canada i.e. manufactured in Canada. Hundreds of cases have been lodged at the World Trade Organization and the European Court of Justice over this 'country of origin' issue.

In order to resolve this issue and standardize member states' trade behaviour with third countries, they decide to go for more integration and agree to form a customs union. An example would be the Southern African Customs Union. Another example would be the European Coal and Steel Community that was created in 1951. The difference between a free trade area and a customs union is that, with the latter, the trade agreement will specify terms of conduct of trade when dealing with non-member countries. More importantly, the countries have not only removed trade barriers amongst themselves but have also set up a common external tariff or non-tariff barrier for all non-members.

Members no longer have the freedom to decide on the tariff rate. They also cannot enter into trade agreements with third countries on their own. Such agreements with third countries shall be negotiated and ratified by the union as a whole on behalf of the member states. For instance, if Britain wants a free trade agreement with Canada, then it cannot do so. It has to approach the European Union to do it on its behalf. While resolving the issues surrounding origin, inter alia, this does represent a significant loss of autonomy on part of member-states.

Both free trade area and customs union deal with only goods and services. However, as history shows, when flow of goods and services increases to large volumes and production networks become transnational, free flow of goods and services would not be enough. Capital controls and labour standards also need to be modified in order to facilitate their free flow to cater to the demands of global supply chains and consumers. This leads states to create what is called a 'common market'. The European Union formed a common market with the Maastricht Treaty in 1993. A common market basically implies the famous 'four freedoms': that of capital, labour, goods, and services. Capital controls are abolished. Labour mobility is de-regulated. The flows are left to be determined by market forces. Creating a single, common market allows for producers to take advantage of economies of scale and consumers get to a greater variety of goods and services. This represents an even more significant loss of state sovereignty since a state cannot say 'no' to the setting up of a manufacturing or a service unit to a firm from another member state. The same applies for labour.

A higher level of economic integration is the creation of economic union. An economic union involves the coordination of macroeconomic policies among member states so that their economies are heading in the same direction. If they are subject to divergent trends and they do not coordinate their policies, some of the countries will be adversely hit while others benefit. In order for this not to happen, a coordination of policies is needed. The highest level of integration is the formation of a monetary union. An example would be the Eurozone. A monetary union implies the creation of a common currency area, a single monetary policy, and a single monetary authority. In the case of Eurozone, the common currency is Euro. The entire Eurozone has a single monetary policy decided by the European Central Bank (ECB) in Frankfurt.

The most obvious benefits of a monetary union are: first, transaction costs arising due to different currencies are eliminated, thereby facilitating comparison of prices across countries; second, countries need not worry about fluctuation in their currency exchange rates. This provides price stability. However, a monetary union is not without costs and there are many as given below:

- Budgetary financing by printing currency is no longer possible. When a country's expenditures exceed the revenues it accrues, then it has to somehow meet its deficit in order to finance those expenditures. It can do this by either domestic or external borrowing through grants or loans or development aid. It can also simply print more currency for financing its budget. While it has its own limitations and problems, countries in a monetary union do not even have this choice.
- Devaluation of currency is no longer possible. When an economy is facing a downturn or a slowdown, it can choose to devalue its currency. This is done in order to make exports cheaper and imports costlier. By curbing imports and promoting exports, the country can generate growth.
- Interest rate cannot be changed. Interest rate is one of the key instruments a country's central bank uses in order to maintain price stability and tackle inflation. This is not possible when a country is a member of a monetary union. Individual countries cannot set interest rate according to their needs or fancies. It will be decided by the union's central bank.

In short, monetary policy is no longer in the country's hands. It is delegated to an independent authority. While independence is needed to ensure price stability, complete isolation from political authorities can also create accountability and legitimacy issues. The ECB, in particular, has been vested with so much power and autonomy that no individual government or national central bank can question its policies.

From the above, what can be more or less unequivocally concluded is that economic liberalization comes with its costs. The idea behind listing out various degrees of economic integration with its pros and cons was to provide a glimpse of the trade-off between national sovereignty and welfare, and globalization (as per our working definition). The two trends do not always head in the same direction and can have significant profits for one at the expense of the rest. The Eurozone crisis is a classic example in this regard. Greece's options to come out of its sovereign debt crisis are highly restricted because of its membership in the Euro currency area. Greece does not have many of the options which are available to other countries like United Kingdom and Denmark. This begs the question of why countries liberalize. Surely it cannot be merely the economic motivations explained above. There are socio-political factors at play too. And an important institution in this regard has been the World Trade Organization to which we will now turn our focus.

The World Trade Organization (WTO)
The WTO was established as a permanent 'global' trade body in the Uruguay Round of trade negotiations of the former General Agreement on Trade and Tariffs (GATT) in 1995. The GATT was a trade agreement on goods and services. The WTO, in contrast, is a permanent organization, a forum whose scope has expanded into government regulations, health and safety standards, intellectual property rights, investment procedures, and so on. Today, it has more than 160 members. The most important thing one needs to know about the WTO is that *it is not ideologically neutral*. Although we can say this about the IMF and World Bank as well, this is particularly important in the context of WTO because unlike the other two institutions, the WTO and its advocacy has met with a lot of criticism and protests in both developed and developing worlds (Wallach et al 2004).

The WTO advocates free trade, whose theoretical aspects were already discussed in the second section. It pushes for economic reforms in all countries, and aims to liberalize trade so that it benefits everybody. Its Doha Development Agenda has been the most controversial, however. While the WTO maintains that its benefits will be disproportionately reaped by the developing countries, agriculture and intellectual property rights remain highly contested areas and one can see a divide between the developed and the developing countries. As our case studies, we shall examine the agreement that was reached by all member states at the Bali Ministerial in 2013, and also the concomitant rise of Regional Trade Agreements in recent years. The Doha Development Agenda is a comprehensive package which aims to achieve trade liberalization in several important sectors like agriculture and services. According to WTO estimates, if it agreed upon and ratified, it is expected to add $1 trillion to the global economy and create 21 million jobs worldwide (Guardian 2013, Reuters 2013). The Doha Round negotiations commenced in 2001 and have not yet been concluded. After reaching an impasse around 2006, the Doha talks were suspended which were resumed sometime in 2010s.

Bali Ministerial 2013
A small part of the Doha Development Agenda was the focus of the Bali Ministerial Meeting of the WTO in 2013. The Bali Package was a Trade Facilitation Agreement (TFA hereafter) which aimed at streamlining customs procedures in all member countries i.e. cutting the bureaucratic 'red tape' (BBC 2013). It was *not* about reducing tariffs or non-tariff barriers. The TFA rules stipulated a limit on farm subsidies and on stockpiling of agricultural produce to 10% of the country's total output. This was problematic for developing countries like India which procure grains from farmers for their food security programmes. India therefore objected to the deal. India, to provide food security to its poor, procures grains from its farmers by offering what is known as a 'Minimum Support Price' - basically a farm subsidy. The government procures about 30% of the country's agricultural output which is then distributed by government-run or contracted retail outlets called 'fair price shops', where grains are sold to the poor at highly subsidized rates.

India passed landmark legislation – the Right to Food Security Act –in 2013. With the intended beneficiaries running up to more than 600 million people, the procurement quantity and farm subsidy amount was expected to shoot up from the current $12 billion to $20 billion. The problem arose when this new figure exceeded the WTO's limits and complaints based on this could be lodged against

India, claiming that this 'violation of rules' distorts global markets. The United States was especially critical of India's stance. Several other countries followed suit. Consequently, liberal economists were extremely critical of India's stance and argued that India could have sought refuge from the WTO rules under the 'peace clause'. The Economist declared 'those least committed to progress - in this case India - can hold proceedings hostage until their demands are met' (Economist 2013). Is it really progress if 600 million people are going to get adversely affected?

But why is Bali package so important if it does not deal with WTO's main agenda –cutting of tariffs and NTBs - at all? Well, liberals such as the Peterson Institute's economists argue that costs due to administrative barriers and regulations are twice as that of tariffs. So, it *is* an important deal. They estimate the costs of shipping around the world exports to be cut down by 10%, raising the global output by $400 billion per year (Economist 2013).

What is this 'peace clause'? Peace clause is Article 13 of the WTO's Agreement on Agriculture which states that domestic support measures and export subsidies of a WTO member that are legal under the provisions of the agreement cannot be challenged by other WTO members on grounds of being illegal under the provisions of other WTO agreements. However, India's argument was that peace clause would grant an exemption for only four years and countries could file a case after that. So, India bilaterally negotiated with the US that it would be exempted from this rule till a 'permanent solution has been agreed and adopted on this issue, however long that might take'. Therefore, in one sense, this can be considered a victory for India but what about developing countries as a whole?

Several developing countries, especially from Africa, did not exactly share in the celebrations of the Bali package as a 'successful deal' which proved that 'WTO is back in business'. They said that the deal lacked balance. They were particularly concerned about the gap between rhetoric and reality on the part of developed countries. They were suspicious of the global North's commitment to provide financial and technical assistance with regard to the implementation of the TFA. The agreement is going to involve huge costs for the South in regards to their streamlining of bureaucratic procedures along the lines of the North. Trade Facilitation is not something that they should be spending a lot of money on. They ought to be spending on health and education and therefore the North should offer such assistance. There were concerns also about the Bali package offering non-binding commitments to the North but binding, comprehensive agreements on the South (Kanth 2013).

Why was the Bali package touted as a success then? Well, WTO members hadn't been able to reach a single agreement (one involving all members) in 12 years! The new WTO director- general was particularly anxious about getting the members to sign the deal. The WTO was facing an 'existential crisis' – Regional Trade Agreements were increasing across continents which questioned the purpose of the WTO, let alone its centrality in the global trading regime. This was only accentuated by the Trans-Pacific-Partnership agreement.

Ravi Kanth, one of the many critics of the Bali Package argued that it was not a fair, successful deal because 'no legally binding outcomes' were reached on the issues raised by the developing countries. The deal, unlike previous Ministerials, failed to secure permanent protection for developing countries to safeguard the food rights of their peoples (Kanth 2013, 2014). He also argues that the West led by the US resorted to the age-old strategy of Divide and Rule. Since the developing countries did not have a united stance at the negotiating table, it was easier to reach an agreement. The 'plurilateral' approach as opposed to multilateral approach - is also a subject of criticism - because it is not inclusive. You are reaching a deal with the more eager members while the less eager members are not even present at the table. This two-speed process can lead to outcomes which can come at the expense of the latter.

From a liberal perspective, the Doha Round offers massive gains to all countries. The agreement, upon ratification, is expected to add 21 million jobs and add $1 trillion to the global economy. These estimates have been arrived at by the Peterson Institute of International Economics (Washington DC). The Institute's economists further claim that the agreement is expected to 'disproportionately benefit developing countries'. However, nobody really knows how these figures were arrived at, on what basis they expect the South to benefit more than the North etc. Economists often make unrealistic assumptions but the consequences of their hypotheses and policy prescriptions are often real enough!

While Bali had its own problems, a more interesting and controversial development in the global trading system has been the burgeoning of Regional Trade Agreements in the last two decades. It is to this trend we now turn our attention to.

The Emergence of RTAS

The focus of both academia and policy makers in international trade is no longer around whether trade is beneficial or maleficent. The idea that trade is beneficial, and is the driver of growth and development has become hegemonic. Similarly, in the discussions around trade liberalization, the debates are no longer about whether a country should liberalize or not. We have come a long way from tariff and quota reduction. With the genesis of the World Trade Organization in 1995 as a result of the Uruguay Round, quotas and several similar trade barriers have been prohibited. Member states have also committed themselves to tariff reduction. However, even this is 20th century story.

Pascal Lamy (2015), the former Director-General of the WTO, in a recent paper, talks about a trend that is relatively new in the area of international trade, a development that has evolved in the mid-2000s and 2010s. As the world economy becomes more integrated, trade liberalization will no longer be about mere reduction of tariffs. It will be about policy convergence. This is because, some argue, it is not possible to really reap the benefits of globalization unless we coordinate our policies in this highly interdependent political economic system.

To illustrate, the Peterson Institute of International Economics argues that costs due to administrative barriers and regulations (non-tariff barriers or NTBs) are twice as that of tariffs. Upon achieving regulatory convergence, they expect the costs of world exports will be reduced by 10%, raising the global output by $400 billion a year (Economist 2013). The objective, to quote US President Barrack Obama, ‘is to look beyond tariff reductions to market regulations and how to make them more compatible’ (Botsford 2014). The collapse of the Doha Round’s discussion (with the exception of Bali package which was just one aspect of the broader Doha Development Agenda) has been accompanied by the rise of what are termed ‘mega-Regional Trade Agreements’. These free trade agreements are neither bilateral nor multilateral. They are somewhere in-between, as a result of which a neat distinction between regionalism and multilateralism may no longer be feasible. A number of questions as to these mega-RTAs have captured the attention of economists, especially with regard to their impact on developing countries and, more broadly, on the multilateral global trading system as a whole, represented by WTO. Lamy’s main argument seems to be ‘so far so good but no guarantees’. While multilateralism has its advantages, he argues that there are some areas such as competition policy and public procurement which are severely contested. As a result, positive outcomes would be too difficult, if not impossible, to achieve at the WTO level.

Lamy further states that the emergence of the mega-RTAs such as Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP) reflects changes in global production networks. These production chains have had to deal with difficulties arising out of differences in regulatory standards than tariffs. Huge costs can be avoided by simplification of rules, and policy convergence which can happen in one of two ways: policy harmonization or mutual recognition. ‘The economies of scale to be gained from regulatory convergence are now at the heart of the new mega-trade deals’ (Lamy 2015, p. 68).

While he admits that there are legitimate reasons behind the relevant countries’ push for these mega-RTAs, he also cautions of the potential risks that they carry. To quote, ‘the risk for the future is that the multilateral playing field will be eclipsed by a proliferation of divergent regulatory systems (what Bhagwati (2008) calls ‘spaghetti bowl effect’), with the establishment of ‘regulatory blocs’ disrupting global supply chains and leading to major trade diversion – in other words, scattering the trade regime and undermining the WTO’s centrality’ (Lamy 2015, p. 71).

Mercantilists, who prioritize 'national interest', advocate against these mega-trade deals. They urge for protection of domestic players from foreign competition and therefore protest against any free trade agreement. Notwithstanding the hegemonic status that liberal economic thought has acquired in contemporary economic system, mercantilists still wield substantial influence over policymakers and the public. The recent protests in the United States (by the members of auto and agricultural sectors) and Japan (by agricultural sector) against TPP exemplify it.

Furthermore, mercantilists will also oppose these trade deals because they do not agree with free trade advocates that trade benefits everybody and even when it does, the gains from trade are unequally distributed and favour those with greater economic and political power (O'Brien and Williams 2013, p. 10). The US is estimated to gain $77 billion out of the total 'global' income benefits of $223 billion per year (Botsford 2014). Given that the US is expected to disproportionately benefit from the TPP, other member states may not share the same enthusiasm in reaching such ambitious agreements as these mega-RTAs. Domestic producers, be it in the agricultural, manufacturing or service sectors, will be hurt because of these free trade deals. The so-called benefits to be accrued from them will benefit only the Big Businesses i.e. TNCs.

Liberals, by contrast, do not see the world as being a zero-sum game and stress on the possibilities and benefits of cooperation. They argue that the alarm over the emergence of mega-RTAs is unwarranted. This phenomenon does not render the WTO obsolete. Both regional and multilateral modes of trading can coexist without harming one another. What we are witnessing is a new phase in the global trading system where it has become a two-speed game which benefits everybody. There are efficiency gains to be made arising out of economies of scale, and reduction of costs due to regulatory barriers. Furthermore, these kinds of mega-trade deals will have a positive 'spill-over' effect on those who are not part of them at this stage. The standards and rules they establish will soon spill-over into every other trade agreement in the future and thereby set up universally harmonized or mutually recognized regulations (as the case may be), facilitating ease of business for all. The $400 billion expected to be added to the global output because of Bali agreement coming through plus $223 billion because of TPP will definitely make everyone better off.

TNCs will benefit greatly from these agreements. However, this should not be viewed as a problem. Rather, this should be seen in a more positive light. TNCs offer advantages to both home and host countries. They not only help in enhancing growth and wealth, but will also disseminate it across the globe (O'Brien and Williams 2013, p. 14).

At this point, however, it would not be fair to project the liberal perspective as being unitary. Liberals are divided over the issue of mega-RTAs and their impact on the global trading system. Free trade theorists like Jagdish Bhagwati who have always argued for 'global free trade' have criticized the increasing preponderance of regional trade deals because of their potential discriminatory effects. They argue that these Preferential Trade Agreements (PTAs) are obstacles to a global free trade regime. What economists like Bhagwati are finding problematic about RTAs is the fact that all RTAs are Preferential Trade Agreements i.e. they lower the costs for insiders but increase the costs for outsiders ('trade diversion'). Once they are ratified, developing countries will have to comply with these 'global' standards ('global' because the parties account for more than 50% of global trade). Countries like Vietnam (which is party to TPP), which are heavily export dependent, have a lot to gain by entering into such agreements. However, this gain will occur at the expense of other countries like Bangladesh (exporting textiles, footwear etc.) which would not have preferential access to US and EU markets (Elliott 2014). Brazil has called these mega-RTAs as just 'old-fashioned trade protection in disguise' (ibid), whereas India has expressed concerns over the establishment of new, global standards and rules without discussing them with all WTO members.

Critical theorists vehemently oppose these deals on grounds that the global trading system is inherently exploitative. The OECD countries which are parties to the two major mega-RTAs, TPP and TTIP, will grow richer at the expense of the LDCs.

More specifically, they point to the significance of these deals in radically transforming the way the global trading system functions. Although the WTO is not ideologically neutral, it is a multilateral trade body which provides space for all countries to voice their concerns. Lamy also makes a note of this when he says that 'WTO is particularly reassuring for smaller countries in that it has provisions for grouping of complainants' (Lamy 2015, p.66). By taking trade negotiations out of the WTO, the OECD countries have not only made the process opaque but also have excluded more than 160 member states of the WTO who constitute about 80% of the world's population. These trade deals are definitely going to have an impact on them. The fact that the US, the EU and their allies are now writing new rules of the game which everyone will have to abide by in the future clearly demonstrates that the rules they are going to formulate and agree upon will be to their advantage, highlighting the rigged nature of the game.

Considering that estimates indicate that the US is likely to disproportionately benefit from the TPP, the mega-RTAs can be seen as a demonstration of the US and EU's reassertion of their global economic and political supremacy. Given the rise of BRICS and US and EU's own decline following the 2008 global financial crisis, these mega-RTAs may be interpreted as an attempt on the part of the global North to reiterate its dominance in the international political economic system by setting the agenda and rules for future trade agreements, and the countries which are now excluded from these agreements will be 'rule-takers' in the future. The vast majority of the countries including the biggest emerging economies i.e. the BRICS will also have to adhere to the rules set by the global North.

The RTAs are inherently exclusionary and thereby discriminatory, which goes against the very ethos of what the North has been preaching all these years – non-discrimination, reciprocity, and transparency. The developed countries negotiated at the WTO level as long as it was favourable to them (Cerny 1995). But, when developing countries led by the BRICS started asserting themselves and made demands that agreements ought to be more favourable to the developing world, they gave up negotiations at the WTO level and resorted to what was more convenient and profitable for them – RTAs. Because the existing rules are not convenient, they are now changing the rules.

TNCs, who are the main players in the global production networks, push for mega-RTAs while small and medium domestic producers oppose it. They would be hurt by these RTAs whereas TNCs would benefit because of the lowering of costs as a result of streamlining of regulatory standards across countries. They also have an important role in setting the agenda for these mega-trade deals – market regulation and competition policy. With tariff levels being already low, it is the regulatory differences which push up costs for TNCs. With regulatory convergence almost always implying a lowering of health, safety, and environmental standards, these mega-trade deals potentially lead to a situation where wages, working conditions, and environmental conditions become depressed (O'Brien and Williams 2013, p. 151). TNCs will move their production processes to countries like Vietnam where they exploit the low-skilled and unskilled labour because of the low-wage conditions. They also greatly benefit from the minimal health and safety standards that are in place, and reap the benefits of working with a largely non-unionized workforce (ibid, Cerny 1993).

For all the concerns expressed by different actors for valid reasons, empirical evidence seems to suggest that RTAs do not cause much harm. Much in line with Lamy's statement that RTAs have broadly been consistent with the multilateral framework, Freund and Orenlas (2010), in their meta-analysis of studies investigating trade creation and trade diversion arrive at the following conclusions: trade creation tends to be the norm in RTAs, trade diversion being the exception. When trade diversion does occur, its magnitude is often quite small. They further argue that, insofar as rent-holders were the ones hampering the multilateral negotiations at the WTO and RTAs destroy rent-seeking behaviour in the economy, RTAs can prove to be a boon/blessing to multilateral negotiations (Freund et al 2014). To quote Baldwin (1994), 'liberalization (regional or multilateral) begets more liberalization'. With respect to the effects of these mega-RTAs on global trade governance, two dominant positions have been taken by scholars: one section argues that the WTO could be rendered obsolete unless this trend stops and major reforms are undertaken within the WTO i.e. these RTAs are stumbling blocks; the other section argues that mega-RTAs do not render the WTO irrelevant i.e.

RTAs are building blocks. The WTO will remain at the centre of the international trading system. Some argue that it's not stalling of WTO negotiations (Doha talks) which have fuelled the dominance of RTAs. Rather, it's the other way around i.e. multilateral negotiations at WTO are stuck because RTAs are spreading. If countries are busy negotiating RTAs, they will be unable to focus on evolving multilateral negotiations. In this section we will elaborate on what these mega deals mean for the WTO and trade governance.

Economists like Bernard Hoekman contend that the mega trade deals are not a threat to the existing multilateral trading system precisely because they exclude the majority of the countries, notably the BRICS. They just reflect a desire on the part of the concerned countries to make further progress in trade liberalization after the Doha Round's failure. Some see it as the best hope for restarting a *global* push for trade liberalization after more than 20 years of stagnation (emphasis added, Alden 2015). Hoekman also points out that the steady expansion of WTO membership since 1995 and the dynamic use of the WTO's dispute settlement mechanisms illustrates how the WTO fulfils functions that RTAs do not (Hoekman 2014).

The mega-RTAs shall not replace bilateral or multilateral trade negotiations either. The regulatory frameworks and measures that are ultimately agreed upon are often applied in a non-discriminatory fashion. Consequently, this benefits the excluded countries also. Moreover, these Preferential Trade Agreements do not cover 'sensitive' police areas which are discussed only at the WTO level. The institutional apparatus of the WTO is also superior to any of the RTAs. The latter will depend on the WTO to enforce market access commitments (Hoekman 2014, Lamy 2015). Furthermore, notwithstanding the increase of PTAs in recent times, 84% of trade flows still fall under the multilateral principle of Most Favoured Nation status. For most traded items, the MFN tariff rates are already low or near zero, which limits the scope for granting preferences (Lamy 2015).

At the same time, economists like Richard Baldwin voice their concerns over these mega- RTAs and view them as a problematic development. On the one hand, they do admit that ever since the Doha Round talks were suspended, there has been no consensus at WTO level among all members on new rules or on-board trade agreements (with the exception of Bali and IT Agreement) (Wolff 2015). On the other, they are concerned that these mega deals undermine the WTO in that these agreements are power-based not rule-based. For the globe as a whole to be better off, multilateral cooperation is needed, not just on trade but all issues. This is not possible without a single, world forum (Baldwin 2014). Some argue that, to avoid increased tensions and fragmentation of the global trading system, countries should 'engage decisively' in reviving the dialogue over reforms at the WTO, but provide no specifics on how that should be done (Elliott 2014).

With the TPP members' trade alone accounting for more than $2 trillion in 2012 (World Economic Forum 2014), these mega-RTAs will take over the world trade governance. Instead of pushing for reforms within WTO and modifying rules in accordance with changing realities, US-EU and allies are looking for and probably have found solutions outside of the WTO at the expense of the rest of the world. Moreover, concerns are not totally unwarranted considering that there is no guarantee that the new rules and standards that the mega-RTAs establish will be consistent with one another and with the WTO's regulations. If that happens, then what happens to the global trading system?

Conclusion

From the two case studies, we can see that what we have defined in this paper as 'economic globalization' has not been a straightforward process which benefits everybody. It is a nonlinear process or set of processes with mixed results, making it contestable and subject to a lot of criticisms. Although one might get a sense that the contestations are primarily between the developed and developing worlds, it is not always so. It is our choice of case studies which might tempt one to such conclusions. For instance, our arguments with respect to economic globalization can be applied to the case of EU as well, whose evolution has had its ebbs and flows. One could not find a better example than the Eurozone crisis which has split the EU in an unprecedented fashion. For instance, one struggle is between pro-Europeans and Euro-sceptics, demonstrated by UK's referendum proposed for

2017. Another struggle is between the Mediterranean EU member states (the poorer states) and the Northern states (the richer states), best exemplified by the protests against the austerity measures and related financial conditions imposed on PIGS (Portugal, Italy, Greece, and Spain) countries by Germany and other dominant EU powers.

The contestations are not only over what kind of economic globalization should take place but also what its impact is on the countries involved, illustrated by the Doha negotiations which have not been settled after 15 years. Unlike the IMF and World Bank (whose Stabilization Policy and Structural Adjustment programs have also been criticised), WTO has met with widespread protests across the globe because of its advocacy of a particular kind of economic system. The future depends on to what extent countries, the vast majority of whom are developing, can form a coalition and make sure that they get fair treatment from the global North. A united stance is needed from the South if it wants to make sure that the North does not engage in arm-twisting individual LDCs into signing trade agreements which may not benefit them, if not harm them outright. We have already seen this with the formations of groups like G-20 and G-77 (Narlikar et al 2004). Nation-states need to unite not only with respect to trade but also other 'global' issue such as climate change and terrorism. However, this unity cannot and should not occur when the playing field is uneven.

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