Globalization and the Race to the Bottom in Developing Countries

The advance of economic globalization has led many academics, policy-makers, and activists to warn that it leads to a “race to the bottom.” In a world increasingly free of restrictions on trade and capital flows, developing nations that cut public services are risking detrimental effects to the populace. Conventional wisdom suggests that it is the poorer members of these societies who stand to lose the most from these pressures on welfare protections, but this new study argues for a more complex conceptualization of the subject. Nita Rudra demonstrates how and why domestic institutions in developing nations have historically ignored the social needs of the poor; globalization neither takes away nor advances what never existed in the first place. It has been the lower- and upper-middle classes who have benefited the most from welfare systems and, consequently, it is they who are most vulnerable to globalization’s race to the bottom.

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Globalization and the Race to the Bottom in Developing Countries

Who Really Gets Hurt?

Nita Rudra
For my parents, Sujit and Lina Rudra
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Preface

My interest in politics and globalization emerged in my adolescence during frequent visits to India. Time after time I saw that the immense scale of poverty and destitution remained the same. Life at home in the United States, on the other hand, seemingly held the promise of endless choices and opportunities for advancement. I was particularly struck by the stark contrast between the health care and resources available to my grandfather, a village doctor in one of the most remote and poorest “gramas” (villages) in West Bengal, and my father, an FRCS (Fellow of the Royal College of Surgeons) surgeon practicing in Florida. I was astounded that two such diametrically opposed economies coexisted in the same world. From here, eventually, questions of distribution, international economics, politics, government choices, and policy design emerged. In my early years of graduate school I became particularly intrigued by the extent to which domestic policy choices seemed constrained by the global economy, and thus fascinated with issues in international political economy. It took some further study and field experience to begin to grasp the true complexity of the situation.

This book is my attempt to scratch the surface of how and why developing and developed countries face such different challenges in (and responses to) the current era of globalization. It is a product of my struggles with understanding the distributional consequences of globalization, and questions of if and how developing country governments can respond to it. The pages that follow illustrate just one view of the dynamic interactions between domestic politics and globalization in emerging nations, and their implications. With this primary purpose in mind, I set out to observe the interplay between economic openness, domestic politics, and social welfare policies in developing nations. I contend that, in emerging economies, it is, in fact, the middle class, rather than the poor, who are the ones most directly affected by changes in government welfare policies occurring as a result of economic globalization. This outcome is fundamentally not, as most people think, the product of contemporary globalization but, rather, of particular domestic institutions that have
existed at least since the post-war era. Based on these findings, I surmise that the less well off in developing countries do not have the same opportunities to protect themselves from the risks associated with the expansion of global markets (or domestic markets, for that matter) as they do in the advanced industrialized countries, but that this is contingent upon particular domestic institutions that pre-date the current era of market expansion. We therefore need not worry about how potential reductions in welfare state policies in response to globalization hurt the poor, because the poor were never the main beneficiaries of such policies in the first place.

My interest in international political economy and the politics of developing countries has been influenced by several people. My greatest academic debts go to John Odell, James Robinson, Benjamin Cohen, and Renu Khator. John Odell has been my mentor since graduate school. His high standards of excellence, his deep intellectual curiosity, and his emphasis on good research design, together with the generous flow of his professional and intellectual advice, have had a profound influence on me. He has since given insightful comments and feedback on everything that I have written. This book might not have been completed without his influence and guidance through the years. I am deeply indebted to James Robinson. The book would never have begun without him; with boundless patience, over endless cups of coffee, he vetoed every book project I suggested – except this one. It was Jim who had the foresight to encourage me to pursue research on international economics and domestic politics with a focus on the developing world. Since then he has been a constant source of support and inspiration. He frequently challenges me to think about my argument more carefully, and little is more satisfying than his approval of my work. He has been a steady source of academic guidance and kind friendship over the years. I also sincerely thank Benjamin Cohen, who always provides such thoughtful comments and responses to my work, no matter how busy he might be. Particularly when I was struggling with the direction of the book project during its initial phases, I benefited immensely from his willingness to engage in random conversations related to this research project. Finally, I am grateful to Renu Khator, my mentor through my Masters, who is now the chancellor and president of the University of Houston. Renu encouraged and inspired me to continue with political science, despite my perceived limitations at the time.

I also greatly benefited from a wider intellectual community, which I would like to thank. My colleague and friend Simon Reich has influenced me greatly by pushing me to work even harder, never wavering in his confidence in me, and never tiring of giving me excellent career advice. I would especially like to thank him for insisting that I write this book, and
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Throughout the book-writing process I benefited from the research assistance of several students. June Park provided excellent research assistance with South Korea. Kate Floros was extremely helpful in editing and overall organization; it was good to know I could always depend on her. Ana Carolina Garriga provided assistance with Brazil. Chris Belasco and Burge Hayran played an important role in data-gathering.

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