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978-0-521-88698-7 - Globalization and the Race to the Bottom in Developing Countries: Who Really Gets Hurt?

Nita Rudra

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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.

Nita Rudra is an Assistant Professor of International Affairs in the Graduate School of Public and International Affairs at the University of Pittsburgh.

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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

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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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for helping me craft the title. Dan Thomas deserves very special thanks for helping me kick-start the book process. It was through conversations with him that I finally found a clear direction for the analysis. He was always willing to help in any way that he could – and he did, on many different levels. My good friend and colleague Sebastian Saiegh willingly read and discussed everything I asked of him. I appreciate his critical comments and suggestions of broader literatures to consult. I am also grateful to David Bearce, who has been a great colleague and read through my chapters, patiently responding to any and all IPE-related questions. Irfan Nooruddin has been particularly helpful by graciously volunteering to read my chapters and providing valuable feedback. Sarah Brooks was very generous with her time, providing me with pages of comments on my Brazil chapter and helping me discipline my thoughts. I do not know if I was able to address all her queries and concerns successfully, but I do feel that my work is better for attempting to do so. Very special thanks go to Joseph Wong, who helped tremendously with the South Korea chapter, and who provided such insightful and thoughtful points. Ashutosh Varshney provided careful and critical comments on the Indian case study. Stephen Haggard and Robert Kaufman continuously encouraged me to pursue this topic and emphasized the important contribution it could make to the wider literature. Amy Wakeland challenged me to ask the critical questions: why is it important, and who cares? She carefully read and discussed my argument and encouraged me to think more broadly about political science. I would also like to thank Hayward Alker, Barry Ames, Michael Goodhart, William Keech, Layna Mosley, Peter Rosendorff, Samira Salem, Martin Staniland, and James Vreeland, who helped on various parts of the book and/or gave me constructive comments and suggestions.

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I would also like to extend my sincere gratitude to all those individuals who facilitated my fieldwork in India, Brazil, and South Korea by setting up interviews, translating, data gathering, and providing critical local insights: Joao and Christiani Barroso, Cidalia Ferreira, David Fleischer, Sandeep Jha, Saurabh Gupta, Shruti, Shveta Mahajan, Sonia, Vani Arora, Yuvika Bahri, Vani Bahri, Manas Mahajan, Neha Gupta, Neha Sharma, Nidhi Chawla, Nidhi Maurya, Nupur Bansal Agarwal, Rashmi Agarwal, Abhishek Upadhyay, Anshu Kalra, Deepika Sharma, Divya Bhasin,

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Gaurav Aggarwal, Jaya Nagpal, and Sharad Nagpal. I need to give special thanks for the extra hard work and efforts by Jae-Jin Yang in Seoul and my aunt, Pushpa Bhowmik, in Mumbai. Without her amazing calm, diligence, and fortitude, I could not have met and interviewed some of the highest-ranking governing officials in the Indian administration at that time.

Friends and family provided a rich source of support while I worked on the book. I was extremely fortunate to have Cassandra Thomas diligently read (and reread) and edit every single chapter in this book. Her keen sense of logic and her insightful comments were instrumental in pushing me to sharpen the primary arguments in the book. She listened patiently as I struggled with my ideas, then provided me with her impressively well-thought-out feedback. It was Cassandra who provided invaluable advice on how best to organize my case studies. Vikram Mangalmurti never hesitated to dialogue with me about the project and was absolutely instrumental in making certain that the book could appeal to a wide audience. Lisa Snead has always been a solid source of support and unfailingly reminded me not to give up. I could always count on Anna Ruth Worten-Fritz to offer good sisterly advice and, most of all, emphasize the importance of having a good attitude. Pierre Laporte has been good-naturedly demanding the completion of the manuscript for years and was extremely helpful during my fieldwork in Brazil. Both through example and good advice, Eric Garcetti, Carmen Sardinas, Isabel Garcia, Kaarina Roberto, and Nupur Dashottar constantly reminded me of the importance of keeping things in perspective. I must give my brother, Krish Sundaram, the deepest thanks for having the wherewithal to withstand my book stress. He has been utterly unflinching in his support through all the trials and tribulations, as well as the sweet moments of breakthrough. Finally, I would like to recognize the important contribution of my second dad, John Ford, who passed away during the final stages of this book project. Days before his passing, the news that I had finished the book was one of the few things that brought a smile to his face. His amazing courage and attitude towards life, along with his enthusiasm for my project, filled me with the spirit I needed to finally finish.

The Graduate School of Public and International Affairs at the University of Pittsburgh provided me with a very supportive environment in which to write this book. For financial support, I would like to thank the University of Pittsburgh's Asian Studies Program, the Center for Latin American Studies, the University Center for International Studies, and the Department of Political Science.

Above all, Ravi Sundaram deserves the most credit for the completion of this book. He placed his career and needs second so that I could do

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whatever was needed to research this topic. He never tired from encouraging me and pushing me forward, and I was internally motivated not only by his faith in me but by his commitment to the project itself. Alongside his own work, he spent endless hours perfecting the numerous figures and tables in this book. But, most importantly, he has given me the stamina to pursue my goals without hesitation.

Finally, my parents, Lina and Sujit Rudra, to whom this book is dedicated, deserve recognition. It is my father's deep passion and yearning for higher knowledge that has served as an endless source of motivation for me. It will always be my father's dream of social justice that I hope to fulfill. I will also be eternally grateful for the unwavering support from my second set of parents, Siva and Vasantha Sundaram, in Bangalore. Ultimately, this journey would not have been possible without my parents' unshakable love and faith in me. I can never thank them enough for that.