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SECOND THOUGHTS ON GLOBALISATION: AN UPDATE

EXECUTIVE SUMMARY

Earlier this year, in Lowy Institute Paper (LIP) 18, Second thoughts on globalisation: can the developed world cope with the rise of China and India? we argued that the probability of a shift towards a less globalisation-friendly policy environment was on the rise. That earlier Paper suggested several factors to monitor over the coming year in order to gauge how this probability was changing over time. This Lowy Institute Analysis looks at how some of these issues have evolved in the months since Second thoughts was written.

In this context, key developments include:

- *The collapse on 21 June in Potsdam of the latest attempt to reinvigorate multilateral trade negotiations;*
- *The expiration, and subsequent failure to renew, the US President's Trade Promotion Authority (TPA);*
- *Continued tension in the US-China economic relationship, including an increasing likelihood of Congress-sponsored legislation targeting Beijing's exchange rate policy;*
- *A growing focus on labour, environmental and product safety standards as they apply to international trade;*
- *The recent spike in concern about the implications of Sovereign Wealth Funds and their potential to trigger a rise in financial protectionism.*

This list is broadly consistent with the hypothesis presented in LIP 18 of an ongoing rethink in the developed world regarding the implications of globalisation.

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More *Second thoughts* . . .

Earlier this year, we made the case that the probability of a shift towards a less globalisation-friendly policy environment was on the rise. This argument is set out in Lowy Institute Paper (LIP) 18, *Second thoughts on globalisation: can the developed world cope with the rise of China and India?*¹ It runs as follows:

Significant parts of the developed world are now having second thoughts about the benefits of globalisation, with many of these second thoughts prompted by the implications of the globalisation-powered rise of China and India. Some in the rich world are scared by the success of globalisation in creating powerful new competitors in global markets or spooked by the security implications of the resultant shifts in economic power. Others are ill at ease with the increases in national inequality that seem to be a side-effect of the new global economy and troubled by the implications of substantially expanded trade with low-wage developing economies. Finally, some are rattled by the resource security implications of big new commodity consumers and exercised by the environmental consequences of the rapid industrialisation and urbanisation of the world's two most populous economies. The result is growing pressure on policymakers in rich countries to temper or modify the forces driving international economic integration.

Certainly, in the months following the writing of *Second thoughts* it has been easy enough to find support for the argument that public opinion in the developed world has become more sceptical about the benefits of globalisation. For example, an opinion poll

commissioned by the Financial Times/Harris reported that many rich-country citizens now felt that globalisation was having a negative effect on their countries, reporting anti-globalisation sentiment across six rich economies (UK, France, Italy, Spain, Germany, US).² Earlier, a US poll for the NBC/Wall Street Journal had found that between December 1999 and March 2007 the share of respondents saying that trade agreements had 'hurt' the US increased by 16 percentage points (to 46%) while the 'helped' share fell by 11 percentage points (to 28%).³

But opinion poll evidence can be difficult to interpret conclusively. In contrast to the FT/Harris results, the latest survey on world public opinion produced by the Chicago Council on Global Affairs and WorldPublicOpinion.org released in June this year suggested more positive feelings for globalisation, with the number of respondents in *all* of the countries polled viewing globalisation as 'mostly good' for their economies outnumbering those saying that it was 'mostly bad.' In the case of the United States, for example, 60% of those asked said that globalisation was mostly good for the country, as opposed to 35% who said it was mostly bad. Australians were even more optimistic, with 65% opting for mostly good against 27% for mostly bad.⁴ On the specific issue of international trade, once again majorities in all of the countries polled found that it had a positive impact on their economies, although the highest negative response was found in the United States (42%).

On the other hand, the results *did* provide some support for the thesis that developed economies increasingly see China's growing economic

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power as a threat rather than an opportunity (Annex II, Table 1). Their pessimistic assessment stood in marked contrast to the more positive view held by many developing economies.

The latest, 2007 iteration of our own Lowy Institute Poll sought to test Australian public attitudes towards freer trade.⁵ The results paint a reasonably complex, but nevertheless positive, picture. They suggest that Australians on average feel that international trade delivers net benefits to Australia, but that they are also worried about some of the consequences. So, for example, roughly two-thirds of those polled agreed with the propositions that freer trade helped make the world a more stable place, and that it helped increase prosperity both in Australia and in other parts of the world. On the other hand, roughly the same proportion agreed with the notion that freer trade put Australia at a disadvantage because of our high labour and environmental standards, and about half agreed with the two propositions that freer trade costs more jobs than it creates, and that freer trade leads to more economic and social inequality in Australia.⁶ Our polling also confirmed that Australians remained relaxed about the implications of China's growing economic power, although they have become more sceptical regarding the benefits of the bilateral preferential trade agreement that Canberra and Beijing are currently negotiating.

Politicians in the developed world have been showing signs of re-evaluating the implications of globalisation. In the United States, for example, there have been signs that there are votes to be had in economic populism.⁷ Perhaps one of the most striking comments on this matter since *Second thoughts* was written,

however, came from the new French President, Nicolas Sarkozy, in June this year. After having successfully persuaded his European colleagues to agree to amend Article 2 of the old Constitutional Treaty by dropping 'free and undistorted competition' as a policy goal, he was widely quoted as saying 'The word 'protection' is no longer taboo . . . Competition as an ideology, as a dogma, what has it done for Europe?'⁸ For some observers, Sarkozy's comments were emblematic of a Europe contemplating a flirtation with old-fashioned mercantilism or economic nationalism.⁹

Recent months have also seen analysts continuing to pick over the possible consequences of the changing distribution of economic and political power. One interesting new slant on the security implications of globalisation has been the discussion surrounding the rise of so-called 'authoritarian capitalist' powers, a definition intended to capture China (along with Putin's Russia), and the consequences of the prospective emergence of a non-democratic but economically advanced 'Second World' that would be in a position to challenge the established powers.¹⁰ The risk of economic 'warfare' between rising and established powers has also received some journalistic attention.¹¹

Tracking the policy shift

In LIP 18 we recognised that since the forces driving globalisation forward were still powerful, any dramatic swing in the policy pendulum was not a done deal. We therefore suggested four key areas to monitor for evidence of such a change:¹²

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- The fate of the Doha round of world trade talks;
- The response of the US Congress to the Bush administration's desire to renew Trade Promotion Authority;
- The temperature of US-China economic relations, and in particular the aftermath of the May 2007 Strategic Economic Dialogue;
- Beijing's attempts to rebalance the Chinese economic model in order (at least in part) to dampen protectionist sentiment in the West.

In addition to these factors, we also listed several other issues that could be monitored in order to track any changing policy attitudes towards globalisation. These included the progress of IMF reform and initiatives aimed at tightening international environmental and labour standards.

Since *Second thoughts*, there have been significant developments across most of the issues listed above. The bulk of them have tended to be consistent with the hypothesis of developed countries reconsidering their policy stance towards globalisation.

The fate of the Doha Round

As we noted in LIP 18, with international trade at the heart of the globalisation process, and the WTO frequently seen as a potential regulator of the global economy, one obvious place to take the temperature of policy attitudes towards globalisation is with the state of the Doha round of international trade negotiations.

At the time of writing *Second thoughts*, trade talks had been resumed in February 2007, following their suspension in July 2006 due to irreconcilable differences between leading participants over agricultural liberalisation. In the event, this latest resumption of negotiations turned out to be fairly short-lived. When negotiators from the United States, EU, Brazil and India met in Potsdam in June this year, the parties were once again unable to reach agreement on agricultural or non-agricultural trade liberalisation, and discussions collapsed on 21 June. Indeed, the only significant difference from the previous breakdown in negotiations appears to have been that this time around the United States and EU decided to blame India and Brazil, rather than each other, for the failure to deliver.¹³ Other explanations offered up for the ongoing stalemate include the continuing inability of the United States and the EU to deliver substantial reductions in agricultural support and fears in developing countries about increasing their own exposure to Chinese competition.¹⁴

On 17 July, in an attempt to get the round back on track, the chairs of the agriculture and non-agricultural market access (NAMA) negotiating committees produced draft proposals designed to provide a basis for restarting negotiations. These proposals received a mixed response, however, since while some of the big players welcomed the move as providing a basis for further talks, they prompted a much more negative reaction from many developing countries.¹⁵ The whole process then moved into (Northern) summer recess, with negotiations scheduled to resume in Geneva in September.

Prospects for a deal therefore look no better than they did when the assessment of LIP 18

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was penned. Indeed, if anything, they look worse. The proposed US Farm Bill in its current form appears to lock in subsidies at levels higher than those proposed in the negotiations. Despite crop prices that have been at or close to record highs, the House Agricultural Committee has fiercely resisted calls for major cuts in subsidies, and instead crafted a bill promising to continue with generous support for US farmers.¹⁶ The House approved the bill (by 231 votes to 191) in July, and it will go before the Senate in September. The Bush administration has threatened a veto. And the expiration of TPA makes the timeline for completing the Doha round negotiations look even more problematic.

Trade Promotion Authority (TPA)

The future of the Doha round and the quest to renew TPA have long been linked. TPA (previously known as fast track) grants the US President authority to enter into certain trade agreements, and then to have their implementing bills considered by Congress under expedited legislative processes. The theory is that this gives negotiating partners comfort that they will not have to deal with the uncertainties and delays that would be entailed by unlimited congressional delays and amendments.¹⁷ The absence of TPA is widely considered to severely compromise Washington's ability to pursue an active trade policy. Granted, some commentators disagree over the precise importance of TPA, but either way it has become a potent symbol of US commitment to liberal trade policies.¹⁸

In LIP 18, we noted that given the changing nature of trade politics in the United States, and

in particular the shift in composition between the previous 109th and the new (more trade-sceptical) 110th Congress, extending TPA would be difficult. In the event, once TPA lapsed at the end of June, there was no immediate attempt to negotiate an extension. Rather, Democrat leaders in the House, including the Speaker and the influential Head of the Ways and Means Committee (which handles trade policy) issued a statement saying that their legislative priorities did *not* include rapid renewal.¹⁹ Subsequently, most observers have discerned little appetite among Democrats to reverse this decision.²⁰ As a result, many pundits judge that there is little chance of any renewal for TPA before a new President takes office in 2009.

Concluding the Doha round and achieving renewal for TPA now look to be caught up in something of a 'chicken and egg' problem. Ideally, the Bush administration would like to be able to demonstrate sufficient progress with respect to the Doha round to make it worthwhile for both the President and Congress to spend the political capital required to fight for TPA renewal. But in the absence of TPA, negotiating partners in the rest of the world may be sceptical of the United States' ability to deliver a binding deal, and hence reluctant to pursue meaningful negotiations.²¹

US-China economic relations

The third and fourth factors identified in *Second thoughts* as warranting close monitoring were US-China economic relations and Beijing's own response to the mounting dangers of a protectionist backlash in the developed world. The relationship between

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Washington and Beijing has arguably become the most important bilateral relationship in the global economy, and the US bilateral trade deficit with China a powerful symbol of many of the concerns felt by US politicians with regard to both the economic and security challenges posed by China's rise, as well as fears about job losses and rising inequality due to trade with low-income economies. In particular, the US Congress has focused its attention on the renminbi and China's exchange rate policy, with accusations of 'unfair' currency manipulation designed to boost China's competitive edge now commonplace.

The inaugural US-China Strategic Economic Dialogue (SED), held in China in December 2006, had been heralded as the start of a process designed to manage these strains. That meeting delivered little more than platitudes, however, and the second SED, held in Washington on 22 and 23 May this year, similarly failed to produce the kind of progress on China's currency regime needed to reconcile Congress. Sure, Beijing announced a token liberalisation of its currency regime in the form of a widening of the renminbi's daily trading bands (from $\pm 0.3\%$ to $\pm 0.5\%$) in the week immediately before the SED.²² But the move was far too modest to win much appreciation in Washington, or to appease the appetite in Congress for more dramatic action on the exchange rate.²³

The next SED is due to be held this December, but in the meantime Congress has continued to line up bills targeting Beijing. Indeed, threats by US politicians to punish China over its alleged currency manipulation have now become so regular as to be described as a

'Capitol Hill ritual' (Annex I to this paper lists some of the proposed measures targeting China). The chance of one of these proposed pieces of legislation gaining enough support to make it into law is on the rise, with some analysts judging that at least one of the proposals now being lined up will be able to generate the two-thirds majority needed to override a promised presidential veto.²⁴ True, even if one of these proposals does finally pass into law, it might still be a long time before China felt the sting of US sanctions.²⁵ Nevertheless, a key message to come out of these developments is that US trade with China remains a politically resonant issue. This is a message that has already been recognised by some of the leading Democrat candidates for the presidency.²⁶

Finally, it is not just Washington that has ramped up some of the rhetoric towards China. Recent months have also seen elements from within the EU display some signs of following Washington's critical stance on Chinese trade and currency policies.²⁷

Reforming the IMF

Along with the WTO, the IMF is at the top of the pile of international economic institutions in terms of would-be governors of the world economy.²⁸ In *Second thoughts* we suggested that the fate of the proposed governance reforms of the Fund could serve as a marker as to the extent to which developed economies, particularly in Europe, were prepared to recognise the changing balance of economic power in the world economy.

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Progress in one highly symbolic area – selecting the leadership of the IMF (and of its Bretton Woods sister, the World Bank) – has been slight. Traditionally, these posts have been carved up between Washington and (Western) Europe, with the United States gifted the choice of the boss of the Bank, and Europe getting the same deal for the Fund. When Paul Wolfowitz quit as head of the World Bank earlier this year, Washington exercised its traditional right to nominate his successor, and Robert Zoellick duly took his place, thwarting hopes that the Wolfowitz crisis might have created the opportunity for a fundamental rethink in the appointment process. Subsequently, the EU has tried to follow the same path with the IMF, nominating Dominique Strauss-Kahn as their candidate for managing director to replace Rodrigo de Rato. This has met with some resistance, however, with Britain and a group of developing countries successfully managing to introduce some changes to the appointment process, including a longer nomination period to allow alternative candidates to come forward and a commitment by the IMF Board to consider candidates ‘without geographical preferences’. Initially there was some doubt as to whether this package would be enough to encourage other candidates, but in August Russia nominated Josef Tosovsky, a former Czech premier and central bank governor.²⁹

Interestingly, both of the two rising Asian powers have been relatively silent over the leadership debate, prompting the IMF’s former chief economist to speculate that their apparent indifference might reflect a lack of faith on the part of Beijing and New Delhi as to the prospects of making the Fund more developing country-friendly.³⁰ Meanwhile, efforts to change the IMF’s voting structure appear to

have run into the expected opposition, as European countries continue to be reluctant to see their voting rights diminished as part of a package designed to give more weight to emerging economic powers like China.³¹

Finally, in June the IMF announced that its board had agreed to changes to its approach to international surveillance, with a new framework setting out a requirement for countries not to adopt policies that could threaten international stability, with criteria including fundamental currency misalignment.³² The obvious target for this change was China, and Beijing’s response was to warn the Fund that it should not see its new mandate as a mechanism for enforcing Washington’s views on the renminbi.³³ If Beijing’s fears (and Washington’s hopes) about the implications of the IMF’s new mandate turn out to be justified, and if the reform process remains deadlocked, then the Fund’s ability to encourage the major new economic players to be ‘responsible stakeholders’ in the global economy is likely to be severely compromised.

Regulating globalisation: environmental, labour and product safety standards

Second thoughts made the case that demands for the imposition or intensification of environmental and labour standards as applied to international trade could be taken *either* as evidence of anti-globalisation (in the sense that sometimes calls for such measures are really disguised calls for old-fashioned protectionism dressed up in modern garb) *or* as demands for more, but different globalisation (a demand for global standards). In the months since LIP 18

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was written, there have been significant developments in both areas.

In terms of environmental concerns, we argued in *Second thoughts* that the environmental consequences of the globalisation-powered rise of China and India were set to receive increased attention, especially in the context of mounting public concern in the developed world about global warming. In particular, LIP 18 cited International Energy Agency (IEA) estimates to the effect that China was likely to become the world's largest emitter of greenhouse gases before the end of the current decade. That forecast now looks to have been too conservative. The IEA's chief economist, Dr Fatih Birol, has since said that, such has been the pace of China's recent growth, it could become the world's largest emitter by November this year. He also went on to note that, at current rates, China would be emitting twice as much CO₂ as the world's 26 richest countries put together within 25 years.³⁴ In June, the Netherlands Environmental Assessment Agency released estimates suggesting that China had *already* overtaken the United States as the world's biggest producer of CO₂.³⁵ For its part, China unveiled its first national climate change policy on 4 June and promised to further control its soaring greenhouse gas emissions. But Beijing repeatedly rejected mandatory caps on emissions, at least for now, stressing that a country's stage of development needed to be taken into account and making the familiar case that the source of the current problem is past rich-country emissions, for which China should not be unfairly penalised.³⁶ Indian policymakers have taken a similar line.

The debate over labour standards has also gathered some momentum, particularly in the United States where the changing balance of power in the US Congress has added weight to Democrats' insistence that new US trade agreements should take labour standards into account. In fact, as I M Destler has pointed out, congressional Democrats have been arguing that US trade agreements should include commitments to uphold labour standards since at least the start of the NAFTA debate. More specifically, they have sought a commitment to enforce so-called 'core labour standards' as set out in the International Labour Organization (ILO) 1998 Declaration on Fundamental Principles and Rights at Work. These standards comprise freedom of association and an effective recognition of the right to collective bargaining, the elimination of forced or compulsory labour, the abolition of child labour, and the elimination of discrimination in respect of employment and occupation. In taking this line, opinion polls suggest that Democrats are accurately representing American public opinion on the issue, despite the fact that while the United States has endorsed the 1998 ILO Declaration, it has not ratified all of the underlying ILO conventions.³⁷ Indeed, as several observers have noted, some existing US labour laws are probably inconsistent with these core ILO standards and as such would be subject to challenge if the United States were to sign agreements linked to them.³⁸

As well as labour standards, congressional Democrats have also focused on the environment, investors' rights and national security at US ports. This set of concerns was brought together in an agreement reached with the Bush administration on 10 May this year,

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whereby as the price for Democrat support for US free trade agreements with Peru and Panama, the administration had to include measures covering labour and environmental standards, port security exemptions, and a provision that foreign investors would not be granted greater rights within the United States than domestic investors.³⁹ For long-time opponents of the inclusion of labour and environmental measures in trade agreements, the May decision was seen as a major reverse.⁴⁰

Finally, while LIP 18 flagged labour and environmental standards as issues to watch, consumer and product safety has now joined them as China's export juggernaut has had to cope with a series of consumer scares relating to pet food, toys and toothpaste.⁴¹ The US Food and Drug Administration has blocked shipments of Chinese-manufactured toothpaste and seafood, and fears about the safety of some Chinese exports – in this case clothing and textiles – have also been felt in Australia.⁴²

The ongoing disputes between the United States and China over contaminated food exports can be seen as part of a broader trend to use product standards to regulate international trade. Peter Gallagher, for example, has pointed out that the number of new sanitary standards that governments report to the WTO has tripled since 2000. Critics of such measures charge that these standards represent new non-tariff barriers that are increasingly used to substitute for lower tariffs.⁴³ The Chinese government has estimated that some 15% of all Chinese exporters encountered some form of technical trade barrier last year.⁴⁴ The Chinese leadership has been concerned enough about the potential damage to its export machine that it has said it will raise the issue of

product safety during the next SED round in December.⁴⁵ Meanwhile, concerns about consumer safety are threatening to work against efforts at regulatory harmony in other trading relationships.⁴⁶

Compensating globalisation's losers

A major factor behind the growing discomfort with globalisation in many parts of the developed world is the fear that international economic integration lies behind rising national inequality. The perception that the gains from globalisation have been quite unevenly distributed is leading to calls for rich-country policymakers and politicians to think about how to reconcile voters to policies that, although they make the economy as a whole better off, may not be seen as beneficial by the average voter.

Not surprisingly, then, there have been some signs of a renewed interest in the case for redistributive government policies, particularly in the United States. One example is a recent essay in the journal *Foreign Affairs*, calling for a 'New Deal' for globalisation, whereby moves towards further trade and investment liberalisation in the United States would effectively be purchased from the electorate by providing tax concessions to all workers earning below the national median. A report commissioned by the Financial Services Forum, a body which brings together the leading US financial services company, makes the same case, calling for policies designed to spread the benefits of globalisation more widely across US voters.⁴⁷ Meanwhile, the US Congress has been discussing an expansion of the Trade Adjustment Assistance (TAA) program. TAA

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provides assistance to US manufacturing workers who are able to show that they lost their jobs due to international trade. In July, the Senate introduced a bill aimed at expanding the program to include service sector workers, recognising that in today's global economy new sectors are now exposed to the winds of international competition. Similar legislation has been proposed in the House.⁴⁸

Fear of Sovereign Wealth Funds

Finally, recent months have seen rich-world globalisation angst find a new focus: Sovereign Wealth Funds (SWFs).⁴⁹ SWFs – basically government-owned and -run investment companies – have been receiving a lot of attention in the financial press and beyond.⁵⁰ The interest was sparked in part by the news that Beijing was planning to create its own investment fund in order to manage a portion of its huge stock of foreign exchange reserves (now standing at more than US\$1.33 trillion). The company is officially expected to start operations in September, but has already dipped its toes into the water with the purchase of a US\$3 billion stake in US private equity group Blackstone.

Why the fuss? A big part of the explanation is the size of funds in question. Since although SWFs in one form or another have been around for quite some time, with the proceeds of huge current account surpluses in the Middle East and East Asia being funnelled into new investment vehicles, rather than into the low-yielding (typically US) government paper that constitutes the bulk of foreign exchange reserves, their role in international financial markets is expected to expand significantly.

Foreign exchange reserves held by Asian central banks alone reached an estimated US\$3.52 trillion in June this year, so it is hardly surprising that the prospect of more active management of these funds has been grabbing a lot of attention.⁵¹ In a widely-cited paper, Morgan Stanley's Stephen Jen estimated that the current size of the world's SWFs could be as large as US\$2.5 trillion. (This would compare to the between US\$1.5 trillion-US\$2 trillion that is estimated to be at the disposal of the hedge fund industry.) But Jen also forecast that the size of SWFs could soar to nearly US\$12 trillion by 2015.⁵²

The current profile of SWFs is dominated by oil and gas-revenue related funds: Jen estimates these account for about two-thirds of the total, with the balance mainly controlled by Asian exporters (Annex II, Table 2). But he anticipates that the share of the former will gradually decline relative to the latter, with China's proposed SWF set to be the single largest such institution by 2009, overtaking the current leader, the Abu Dhabi Investment Authority.

Of course, given their huge stocks of foreign exchange reserves, the same governments now contemplating establishing or expanding SWFs *already* own large stocks of developed country financial assets.⁵³ The difference that has been seized upon in much of the commentary to date is that while these existing holdings are typically in government paper (such as US treasury bills) which does not offer any direct control to the investor, the new investments are more likely to take the form of equity stakes which will confer ownership rights. Moreover, such investments may have a tendency to cluster in industries that are sensitive to

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national security considerations, such as infrastructure, transport and energy.⁵⁴ Other concerns over a growing role for SWFs in international financial markets have focused either on the lack of transparency of many SWFs, or on the particular risks associated with ownership by government-controlled entities. In particular, the possibility that government-ownership could entail the pursuit of objectives other than the maximisation of shareholder value has been sounding warning bells.⁵⁵

As *Second thoughts* pointed out, the experience when China's CNOOC attempted (and failed) to buy US oil company Unocal, suggests that the developed world is uncomfortable with the idea of seeing control of what it thinks are strategic assets pass into the hands of potential competitors. Some form of financial protectionism appears to be one likely response. Following the Dubai Ports World saga in 2005, the United States has already moved to tighten foreign investment controls. On 26 July this year the Foreign Investment and National Security Act of 2007 was signed into law, making significant changes to the foreign investment review process.⁵⁶ In particular, the scope of the review process was broadened to include a mandatory review of transactions where the buyer is a foreign government or is controlled by or acting on the behalf of such a government. Washington has also asked the IMF and World Bank to establish a code of good practice for SWFs. Elsewhere, Brussels is reported to be considering European-wide guidelines, and Germany is thinking about adopting a US-style approach to screening foreign investment. There have now been several calls for the introduction of internationally agreed standards covering government-controlled

international investment and the operation of SWFs, including potentially quite onerous disclosure requirements.⁵⁷

While some of the concerns expressed regarding the operation of SWFs are perfectly legitimate, nevertheless emerging markets will justifiably feel that there is an element of rich-world hypocrisy at work here. After all, politicians in some developing countries have long been sceptical about the actions of non-transparent hedge funds, for example. And no matter how much their developed country interlocutors might insist that the key difference is one of government versus private ownership, they are likely to suspect that the real difference is whether the control is being exercised by a developed or a developing economy. In this context, one interesting possibility is whether US demands for greater official oversight of SWFs will be met by calls for similar treatment for hedge funds and other private sector institutions. Certainly, the current volatility in international financial markets means that calls for greater international financial regulation are already on the rise.⁵⁸

Conclusion

In the months since *Second Thoughts* was written, developments have been broadly consistent with the hypothesis presented in the Paper of an ongoing rethink in the developed world regarding the implications of globalisation.

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NOTES

¹ Mark Thirlwell, *Second thoughts on globalisation: can the developed world cope with the rise of China and India?* Lowy Institute Paper 18. Sydney, Lowy Institute for International Policy, 2007.

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³ Cited in Grant Aldonas, Robert Z Lawrence and Matthew J Slaughter, *Succeeding in the global economy: a new policy agenda for the American worker*. Policy Research, The Financial Services Forum, 26 June 2007, pp 10-11.

⁴ The survey covered both developed and developing economies. The Chicago Council on Global Affairs, *World Public Opinion 2007*. Chicago, The Chicago Council on Global Affairs and WorldPublicOpinion.org, 2007. The Australian results are taken from our own 2006 Lowy Institute Poll.

⁵ Allan Gyngell, *The Lowy Institute Poll 2007*. Sydney, Lowy Institute for International Policy, 2007.

⁶ In each case the figure given is the sum of those who agreed 'strongly' and those who agreed 'somewhat' with the proposition in question. Ibid.

⁷ See for example Robert Toner, A new populism spurs Democrats on the economy. *New York Times*, 16 July 2007.

⁸ George Parker, EU leaders strike a deal on 'reform treaty'. *Financial Times*, 22 June 2007.

⁹ For example, Wolfgang Munchau, Europe's drift to mercantilism. *Financial Times*, 24 June 2007.

¹⁰ Azar Gat, The return of authoritarian great powers. *Foreign Affairs* 86 (4) 2007. Some interesting empirical work finds that while successful autocracies can outperform democracies at the top of the distribution of growth performances, they also tend to perform worse at the bottom. See Tim Besley and Kudamatsu. *What can we learn from*

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¹¹ Ambrose Evans-Pritchard, China threatens to trigger US dollar crash. *The Telegraph*, 9 August 2007.

¹² See especially chapter 5 in Thirlwell, *Second thoughts on globalisation: can the developed world cope with the rise of China and India?*

¹³ In July 2006 the dispute focused on how much market access the EU was prepared to offer relative to the scale of reductions in subsidies acceptable to the United States. This time it was the two developing economies that were accused of failing to offer enough in terms of industrial sector liberalisation in response to the agricultural liberalisation proposed by Washington and Brussels. See Alan Beattie, World trade talks collapse in acrimony. *Financial Times*, 21 June 2007, The Economist, Potsdam's price. *The Economist*, 28 June 2007.

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¹⁵ For example, see Alan Beattie, Critics resist Doha's tariff cut proposals. *Financial Times*, 26 July 2007.

¹⁶ David M Herszenhorn, Farm subsidies seem immune to overhaul. *New York Times*, 26 July 2007.

¹⁷ J F Hornbeck and William H Cooper, *Trade Promotion Authority (TPA): Issues, options and prospects for renewal*. CRS Report for Congress. Washington DC, Congressional Research Service, 2006.

¹⁸ Brainard and Shapiro for example argue that the emphasis on TPA's importance stands 'in stark contrast' to what the legislation actually does, and that its importance is largely symbolic. Lael Brainard and Hal Shapiro, *Fast track trade*

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¹⁹ Associated Press, US Democrats not eager to give Bush new trade negotiating authority. *International Herald Tribune*, 29 June 2007.

²⁰ Doug Palmer, Lawmakers clash as "fast track" expires. *Washington Post*, 28 June 2007.

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⁵⁶ Prior to this legislation, the review process was guided largely by the 1988 Exon-Florio amendments to the Defense Production Act of 1950. This grants the President the authority to suspend or block any foreign acquisition of US assets that is determined to threaten national security. The process normally begins when the parties to a transaction file a voluntary notice to the Committee on Foreign Investment in the United States (CFIUS) stating that US assets are about to become subject to foreign control (although the US government also has the right to initiate the process). Notification triggers a 30-day review, after which CFIUS clears most transactions. The remaining transactions are subject to an additional 45-day investigation. At the end of this, the President has 15 days to announce a final decision and notify Congress.

⁵⁷ Edwin M Truman, *Sovereign Wealth Funds: The need for greater transparency and accountability*. Policy Brief PB07-6. Washington DC, Peterson Institute for International Economics, August 2007. Garten, We need rules for sovereign funds. Ralph Atkins and Mark Schieritz, IMF joins call for

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⁵⁸ See for example Heather Timmons and Katrin Bennhold, Calls grow for foreigners to have a say in US markets. *New York Times*, 29 August 2007. Economist Dani Rodrik has noted the interesting parallels with some of the concerns raised in this article with the fears expressed about Chinese product safety. Thus a major economy is exporting large amounts of products (complex financial instruments in the case of the United States, toys and pet food in the case of China) which some of its trading partners feel is subject to inadequate domestic regulatory oversight.

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ANNEX I: SELECTED EXAMPLES OF PENDING CHINA LEGISLATION IN THE US CONGRESS

As mentioned in the main text, the US Congress (both the House and the Senate) have crafted a number of bills targeting China's currency policy. Several different approaches are on offer, with some bills proposing to levy tariffs on Chinese products equal to the estimated undervaluation of the renminbi and others seek to treat renminbi undervaluation as equivalent to a subsidy, and hence subject to the use of countervailing duties. Yet another approach seeks to amend the way that the US Treasury evaluates cases of currency manipulation in order to increase the likelihood of an adverse finding against Beijing (since to date Treasury has been reluctant to deliver any such result).

Several examples are listed below.

In the Senate:

The *Currency Exchange Rate Oversight Reform Act of 2007 (S.1607)*, sponsored by Max Baucus (D) Charles Grassley (R) Charles Schumer (D) and Lindsey Graham (R). Originating in the Senate Finance Committee, this bill requires the Secretary of the Treasury to report biannually to Congress on misaligned currencies. Currencies judged to be 'fundamentally misaligned' are to be designated for priority action, beginning with bilateral consultations with the country in question. If the misalignment then persists for 180 days after these consultations, then the United States is to use antidumping measures. Other punitive measures relating to federal procurement, Overseas Private Investment Corporation

(OPIC) financing and insurance and support for multilateral bank financing would also be invoked. After 360 days, the US Trade Representative (USTR) would be required to file a case at the WTO, while the Treasury Secretary would be expected to consult with the US Federal Reserve regarding the possibility of remedial currency intervention.

The *Currency Reform and Financial Markets Access Act of 2007 (S. 1677)* sponsored by Chris Dodd (D) Richard Shelby (R) and originating in the Senate Banking, Housing and Urban Affairs Committee seeks to make it easier for Treasury to identify a country as manipulating its currency by removing the requirement of finding 'intent'. If currency manipulation is identified, then the Secretary of the Treasury has 30 days in which to adopt a proposal to counter the manipulation and begin negotiations with the country in question. If no progress has been made after 300 days, then WTO action should be pursued.

The *Fair Currency Act (S. 796)* sponsored by Jim Bunning (R) Debbie Stabenow (D) originates in the Senate Finance Committee. It seeks to amend the 1930 Tariff Act in order that exchange rate misalignment can be treated as an export subsidy, and hence be subject to the use of countervailing duties.

In the House:

The *Currency Reform for Fair Trade Act of 2007 (HR. 2942)* sponsored by Tim Ryan (D) Duncan Hunter (R) of the House Ways and Means Committee combines the Baucus-Grassley approach (using antidumping laws in the case of misaligned currencies) with a

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provision that countervailing duty laws be made applicable to non-market economies, and that currency misalignment should then be treated as a subsidy in calculating countervailing duties.

The *Nonmarket Economy Trade Remedy Act of 2007 (HR.1229)* sponsored by Artur Davis (D) Philip English (R) of the House Ways and Means Committee would amend the Tariff Act of 1930 in order to require the Commerce Department to accept countervailing duty cases against non-market economies. It would create a new mechanism in which congressional approval would be required to implement a decision by Commerce to ‘graduate’ a country to market economy status.

The *Fair Currency Act of 2007 (HR. 782)* is the House counterpart to the Senate bill of the same name.

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ANNEX II: TABLES

Table 1: How China's growing power affects your country (selected results)

	Growing economy		Growing military power	
	Good thing (%)	Bad thing (%)	Good thing (%)	Bad thing (%)
Canada	50	41	16	66
US	41	45	15	68
Spain	35	44	15	58
France	35	64	15	84
Britain	45	41	12	66
Germany	39	55	10	77
Sweden	62	18	9	61
Italy	19	65	7	70
Japan	57	27	6	80

Source: Chapter 3 in The Chicago Council on Global Affairs (2007)

Table 2: Selected Sovereign Wealth Funds

<u>Country</u>	<u>Name</u>	<u>Estimated size (US\$ b)</u>
UAE	Abu Dhabi Investment Authority (ADIA)	500 - 875
Singapore	Government of Singapore Investment Corp. (GIC)	100 - 330
Saudi Arabia	Various Saudi Funds	300
Norway	Government Pension Fund - Global	300-308
China	State Foreign Exchange Investment Corp + Central Huijin	300
Singapore	Temasek Holdings	100-108
Kuwait	Kuwait Investment Authority (incl Future Generations Fund + General Reserve Fund)	70-213
Russia	Stabilisation Fund	32-122
Qatar	Qatar Investment Authority	50

Sources: Estimates from Economist (2007) and Truman (2007)

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